

Mr Callaghan hopeful after success of Nigeria meeting

James Callaghan, the Prime Minister, is hoping to convince African leaders of the soundness of Western determination to cooperate with them by drawing a strong line towards South Africa over Namibia. His wish to reinforce Britain's credibility was one of the main products of his weekend meeting in Nigeria with President Kaunda of Zambia. It is also understood that British troops will not be sent to Zambia or Rhodesia.

Drive to soothe black Africa

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Relimo forces attacked in raid

isbury, Sept. 24.—Rhodesian troops clashed with African forces during a raid on a village in Mozambique, Rhodesian military command said today. Twenty-five Rhodesian soldiers were killed in the raid, which ended today. A communiqué, the military command said, stated that Rhodesian forces had been "heavily engaged" with African troops equipped with heavy weapons. The communiqué added: "While it has repeatedly stated that Rhodesian security forces have quarrelled with the Rhodesian Army, elements of FPLM (Frente Popular de Libertação de Moçambique) based at Chimio

Better trade outlook for Europe and US

David Blake, director of the International Monetary Fund, said today that the world's economies, with the exception of the United States, are showing signs of improvement. He said that the world economy remains unsatisfactory in many respects, but there are some signs of improvement. He said that the world economy remains unsatisfactory in many respects, but there are some signs of improvement. He said that the world economy remains unsatisfactory in many respects, but there are some signs of improvement.

Lord faces total shutdown of operations in UK

Operations in the United Kingdom are facing a total shutdown, probably by the end of the year, because of a strike by the Government's guidelines. The unions have agreed to accept the Government's guidelines, but the management has refused to accept them. The unions have agreed to accept the Government's guidelines, but the management has refused to accept them.

State chiefs scrutiny

Appointments of chairmen of nationalized industries should be scrutinized by MPs, all-party parliamentary report is expected to recommend this week. Such a move would reduce the powers of Ministers to make appointments and could lead to a more open and democratic process.

International talks on people and parks

An international conference which begins tomorrow at Castleknock, Dublin, will discuss how to balance protection of the countryside and the interests of the people who live there with the demands of recreation and tourism. The conference is being organized at Lough Hill, by the Peak Park Planning Board.

Record Soviet harvest

Prospects in the Soviet Union are for a record harvest, which could save the country almost £500m in grain purchases from abroad. But difficulties in bringing in the crop and a lack of drying machinery and storage space may reduce the final total of usable grain.

Iran rioters dispersed

Police fired into the air to disperse anti-Shah demonstrators who had been attacking the funeral of the religious leader of the central Iranian town of Golestan. The rioters were dispersed and some rioters were arrested.



The National Front marching to the East End of London yesterday, almost lost behind the cheerful massed ranks of the Metropolitan Police.

Police tactics ensure that National Front march is peaceful

The National Front march to the East End of London yesterday, almost lost behind the cheerful massed ranks of the Metropolitan Police. The police allowed the Front to march down Great Eastern Street, passing its new headquarters, and then turned it into a narrow lane. The police tactics ensured that the march was peaceful.

Terrorist suspects captured

Dortmund, Sept. 24.—Two suspected terrorists were captured today after a gun battle in which a West German policeman was shot dead, police said. Both suspects, a man and a woman, were wounded. The man was taken to hospital for an emergency operation. A third suspected guerrilla escaped.

Divided Arabs threaten diplomatic and economic boycott of Egypt

From Robert Fisk, Damascus, Sept. 24. Mr Cyrus Vance, the American Secretary of State, left Damascus today after failing to win any tangible support for the Camp David agreement from Jordan, Saudi Arabia or Syria. Even before he left for Washington this afternoon, the Arab states, which have most noisily rejected the Egyptian-Israeli accord, set out to isolate President Sadat by announcing they intended to break off all diplomatic and economic relations with Egypt.

Full pension rise next year urged

By Our Labour Staff. Mr Len Murray, general secretary of the TUC, called yesterday for the union aim of a married couple's old age pension, set at half the national average earnings, to be implemented by the end of next year. He told a rally of about 2,000 in Trafalgar Square, called in support of the target, which includes a single person's pension of a third of average earnings, that the TUC's aim was to achieve "during 1979".

Police stand by as Swiss approve their new canton

From Alan McGregor, Moudon, Switzerland, Sept. 24. The Swiss have endorsed, in a nationwide referendum, the setting-up of a new canton. It will comprise the three northern districts of the Jura and will be the twenty-third canton and the first addition to the confederation for 130 years.

How we made the Co-op look rather special.

The London Co-op came to us with two problems. One was to design a display module to promote their more expensive products. So, of course, it had to look like a million dollars. That's why we used Krallex. Our tubular anodized aluminium display system, that's light, strong and easily assembled into a variety of different angles. By using panels of glass, wood or perspex, it's easy to create anything from small shelves to large partitions. Which leads us to their second problem.

The furniture department. Here we used Krallex to divide the perimeter area into individual, but physically connected room settings. Since its easy to dismantle and rearrange, it allowed their room designs to be as varied as their range of furniture.

EEC team in China for trade talks

The first delegation of the European Economic Community to visit China since a five-year trade agreement between the two was signed last June has arrived in Peking. The team of bankers and industrialists will prepare the ground for an expected substantial expansion of trade with China, whose industrial expansion plans are thought to offer big opportunities to European exporters.

Baluchi war threat

Baluchistan guerrillas have threatened to renew their armed struggle for self-determination if the Pakistani military regime does not begin negotiations immediately on the nationalities issue.

On other pages

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HOME NEWS

4 nations to discuss tourism, recreation and the countryside

John Young
Living Reporter

International conference parks and people begins to-day at Lough Hall, Castle Derbyshire. Organized by Peak Park Planning Board, being attended by delegates from Belgium, Canada, Denmark, Finland, West Germany, Greece, the Netherlands, Portugal and Sweden, in addition to Britain.

The theme is how to balance the interests of those who live with the demands of tourism.

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Sharp drop in white bread consumption, survey finds

High Claydon
Fish families are steadily increasing their consumption of fish, despite the growth of the National Food Survey, published today, shows that although slightly more bread was eaten early in the summer than a year ago, consumption of white bread fell sharply.

The survey is the first to show the withdrawal of the bread from the bread market. It measures what people eat and drink at home, the most authoritative of the British diet.

The survey shows that consumption of white bread has fallen by well over a tenth in four years despite the use of government subsidies in the 1970s. It indicates that purchases of many traditional British foods are steadily changing, with low-protein and energy

values of food eaten at home in the past year, but there is no danger of inadequate nutrition in most of the population. Overeating remains a vastly more frequent condition in Britain than starvation.

The compilers of the survey say that the increase of 6 per cent in family food bills between the second quarter of last year and the corresponding period of this year was lower than the rise in food prices for the period. There was a slight fall in the real value of household purchases per head, a fall due mainly to reduced purchases of carcasses, meat, bacon and poultry.

Low prices of fresh vegetables this year helped to reduce family purchases of their staple and frozen rice, and less was spent on them early this summer than a year before. Consumption of breakfast cereals rose as that of bacon went down, and price cuts on coffee persuaded shoppers to buy more of it, and less tea.

HOUSEHOLD FOOD CONSUMPTION

(oz/person/week in 2nd quarter)

Bread	Milk	Lamb	Sausages	Preserves
34.9	4.6	5.1	3.5	2.5
34.0	4.6	4.2	3.2	2.2
32.5	4.5	3.7	3.1	2.1

a in bottles and cartons
b: National Food Survey

New law 'fails to heal the wounds of broken marriage'

Staff Reporter

The new laws governing the payment of maintenance to a wife because they have been taken by a judge as unsatisfactory structure for family law, according to the National Council for One-Parent Families.

The Government, the council says today, should have taken the opportunity in Domestic Proceedings and Magistrates' Courts Act, 1978, to introduce family courts.

Under the Act an order for maintenance will be made only if one party can prove a breakdown of the marriage, or that the other partner has deserted, or that the partners agree. Proving this, it was feared, would be as much an increase in bitterness between a couple as the present grounds.

Mr Paul Lewis, deputy director of the council, said that the new grounds did nothing to heal the wounds of a broken marriage or pave the way for reconciliation. The Act should be amended to allow one ground only, that the couple were living apart.

That was a clearly provable fact, simple to understand, and would bring into the magistrates' courts the "no fault" provision of separation under which nearly two fifths of all divorces were now granted.

Fewer couples went to magistrates' courts each year, but if those courts still had a role it was to make fair arrangements between partners when the marriage was not yet dead.

Newspaper boy's killing linked with antique thefts

Det Chief Supt Robert Warr, head of Staffordshire, said yesterday that he believed the raid on Yew Tree Farm, Kingsford, Staffordshire, in which Carl Brindley, aged 13, the newspaper boy, was murdered, was linked with nationwide antique thefts.

It was likely that the weapon used to kill the boy was stolen. Mr Stewart said information was continuing to pour in from the underworld, including many calls naming people thought to have been responsible for the killing.

Call to stop national parks being eroded

From a Special Correspondent
Lynton

Lord Winstanley, chairman of the Countryside Commission, told the national park authorities on Saturday that they were under no obligation to accept the advice of government experts "who tell you they have to do this, or there is no other way".

He said: "Sometimes it may be worthwhile to push other interests so that they have another look."

Referring to the Government's decision in favour of limestone quarrying in the Peak District, Lord Winstanley told the national parks conference in Lynton, Devon: "We cannot go on allowing the national parks to be gnawed away on the basis of single cases."

He commended the government, however, for a letter from Mr Denis Howell, Minister of State at the Department of the Environment, to ministers and heads of public bodies with land in national parks, impressing on them the desirability of their working in tightly with the national park plans.

"It was an unprecedented endorsement of the status and importance of national parks", Closing the three-day conference, Lord Winstanley praised the national park authorities for their national park plans which, he said, were "a testimony of the will of the national parks" to grapple with the difficulties caused by increasing numbers of visitors.



River-crossing ability of WRNS petty officers from HMS Royal Arthur at Corsham, Wiltshire, being tested during an assault course yesterday.

Thousands with poor sight 'unfit to drive'

Thousands of motorists aged between 50 and 65 are unfit to drive because of poor vision, according to a survey published in the *British Medical Journal*. The report, by Dr David Spence and Dr David Shannan, of St Thomas' Hospital

London, says that the eyesight of thousands of drivers is below the minimum standard set for holding a licence. The doctors add that motorists are generally unaware of the report is based on a survey of about 2,000 people, in the age group. Almost one person in 10 was found to have vision impaired to the point regarded by the Department of Transport as showing that people are unfit to drive. In those aged between 60 and 65 one in six was below

Four sites listed for natural gas terminal

From John Charters
Manchester

The British gas industry is launching one of the biggest "public participation" operations in its history over the future siting of a 300-acre terminal on the north-west coast, which will be required to bring ashore supplies from the recently proved natural gas field in Morecambe Bay.

Four potential sites are being considered. The first is just south of the Lune estuary, near Lancaster; another in the Fressall-Pilling area, near Fleetwood; the third on the south bank of the Ribbles, near Southport; and the fourth on the Dee estuary, near Shotton, in North Wales.

Public reactions so far have been fairly muted in relation to the Lune site; there have been some fears and objections voiced in the Pilling area, where there are possible complications over the Ribbles site because of the Nature Conservancy Council's intention to establish it as a 6,000-acre bird sanctuary; and local aspirations have been expressed that it might go to the Dee because of recent job losses in other industries there.

The assistant chief environmental planning officer of British Gas, Mr Charles Hibberd, emphasises that he and his colleagues still have open minds about which site they will prefer and that they have only just begun finding out the detailed advantages and disadvantages of each. Informal discussions are under way with local authorities; more formal ones will begin next month. Then there will be public meetings and touring exhibitions of models, photographs and diagrams to keep the public informed.

Last week a party of journalists from the North-west were taken to view a similar installation on the Lincashire coast, at Theddlethorpe, near Mablethorpe, which has been operating without serious controversy or adverse incidents for five years.

The site takes up a lot of farmland (150 acres developed and another 180 in reserve for possible expansion); it is a low-lying complex, relatively unobtrusive in appearance, sparsely clean and odour-free, and almost silent.

Few of the structures in the complex of pipes and tanks rise much above 50ft, and in an area where trees grow rather more readily than they do in the salt-laden winds of Lincolnshire, such an installation could be almost totally camouflaged.

Mr Hibberd maintains that the Ribbles estuary site which is being saved by the Nature Conservancy Council as a habitat for wading birds against earlier plans by a Dutch businessman to drain and farm it, need not be ruled out of their short list.

Industrial interests hoping that the project will boost job opportunities are likely to be disappointed, however. There will be work for about 500 people during building, but the permanent staff operating the terminal will probably number only about a hundred.

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Therefore, to make life easier for everyone, we are introducing a new exclusive service for our full fare passengers who travel in Economy.

The service is called "Full Fare Coach" and it starts on October 15.

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No.1 across the Atlantic.

HOME NEWS

Bigger part for judges in planning system urged

From Our Planning Reporter Oxford

A call for greater involvement of the judiciary in the planning system was made yesterday by Mr Peter Boydell, QC, chairman of the Planning and Local Government Committee of the Bar Council. He was speaking at a weekend seminar in Oxford jointly arranged by the Law Society, the Bar Council and the Royal Institution of Chartered Surveyors.

"I believe it vital that the courts should approach the decisions of planning authorities, and of the Departments of the Environment and Transport, with ever more critical eyes," he said. "Put shortly, we should, I suggest, be more prepared to trust to the good sense of judges and less ready to leave policy and its implementation to others."

He cited an unnamed Oxford academic as saying that there had never been a successful challenge in the courts to the validity of any development plan, and quoted him as remarking that that was "surely not attributable entirely to the quality of English planning or the fairness of the public inquiry procedure."

If there was to be such judicialization, judges must acquire greater familiarity with the wherewithal of planning: its techniques, its language, its growing element of public consultation and participation. They must read departmental circulars, which they were so reluctant to do.

Conference calls for open access to school records

The campaign against secrecy in schools was intensified on Saturday as delegates to a national conference on the subject called for open access to personal information in school files and records.

Confidential files deny parents the right to challenge details about their child's education, they said. The conference in London was organized by the Advisory Centre for Education. Mr Peter Newell, the centre's director, said: "We see this argument in terms of human rights, rights that are protected in the United States and in other countries."

He gave an example of comments written during a child's first years at school and later passed on to secondary school. The records had been found to contain comments such as "Wets bed" and "Does not fit into groups, not well liked."

Mr Newell said: "Many may not be aware of the effects of secret and subjective judgments which have been filed away on their lives."

He said that the centre did not abolish school records to be made accessible to parents. "We have to stop the education service remaining the secret service."

Mr Newell said later that his centre is to write to Mrs Shirley Williams, Secretary of State for Education and Science, drawing her attention to the public concern about confidential school files. The letter will urge the Government to support a Bill "to provide parental access."

80 Polish ex-servicemen must stay in hospital

By Our Health Services Correspondent

More than eighty Polish ex-servicemen, patients in a Surrey mental hospital since the end of the last war, have to remain there because there is nowhere for them to go.

Most of the patients, aged between 55 and 75, have become institutionalized. Efforts by health authorities to return them to their own country have always failed. Now they will take responsibility for them, even where medical opinion is that they could have been discharged.

Relatives cannot afford to visit them and they have little contact with the outside world. The men are at an average age of 65.

They were: Saifullah Javed, Mahmood Saif, and Farma Macdon, all of Paisley Road West, Glasgow.

The accident occurred where the pier changes from two lanes to a single lane. A restaurant owner, Mrs Lindsay Wilson, said yesterday: "The lighting is not very good and last night it was very stormy. There are railings on the pier, but not at that point."

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The Sartorius, broken on the rocks off Lulworth.

Three saved as yacht hits rocks

Three cross-Channel yachtsmen were rescued yesterday from their craft, which had grounded on rocks off the Dorset coast and later broke up. Weymouth lifeboat took them off the Sartorius, owned by Mr Peter Stewart, aged 53, a

former BBC reporter. He was crushed between the boat and rocks as he tried to jump clear. He was in hospital last night with chest and head injuries. The yacht broke up and was washed ashore in Worbarrow Bay.

Tory group disagrees with Stevas view of exam tables

The Monday Club, the Conservative pressure group, added fuel to the fire of the disagreement between the party's spokesmen on education at the weekend with statements by Mr Norman St John-Stevens that examination results should be seen only in the social context of the school concerned.

It said that such thinking could result in children from poorer areas being preferred for higher and further education over children with better results from more prosperous areas.

The disagreement between Mr St John-Stevens, the chief opposition spokesman on education, and Mr Rhodes Boyson, his deputy, was based on Mr Boyson's comparison of the results of Manchester's comprehensive schools against the Trafford selective school near by.

In a thinly veiled rebuke to Mr Boyson on Friday, Mr St John-Stevens said: "We do not favour the publication of exam league tables. We want to see results placed in their appropriate social setting and in the context of the particular school and its problems."

The Monday Club said on Saturday that that view would lead not only to distortions but also to social engineering and undesired egalitarianism which

the Conservative Party ought to deplore rather than to justify. Mr Martin Flanoery, chairman of Labour's education and science group, said today that the view of Mr St John-Stevens and his second-in-command really must get together and try to heal the deeply hatred they so obviously feel for one another.

"The British people clearly want comprehensive schools and the Tory party now recognize this. But the backwoodsmen, led by Mr Boyson, cannot reconcile themselves to this fact and are fighting a miserable rear-guard action to voucher schemes and the like."

Mr Fred Jarvis, general secretary of the National Union of Teachers, said: "There is mounting concern at the misuse by politicians of examination results for purposes which are grossly and deliberately misrepresent the work of individual schools and which are, or could be, detrimental to the education of pupils, both individually and collectively."

He said that the "crude and utterly irresponsible tactics" of Mr Boyson had been exposed. He had been "discredited and rebuked by Mr St John-Stevens. The union executive issued a statement deploring the 'totally misleading impression' created by Mr Boyson."

Worldwide human rights drive by Amnesty

From Our Correspondent Cambridge

Amnesty International is to launch a worldwide campaign this winter which it hopes will lead to the ratification of the United Nations International Human Rights Convention by 100 countries that have not yet done so.

The convention gives legal force to provisions of the Universal Declaration of Human Rights and the campaign coincides with the 25th anniversary of the declaration.

Amnesty International's eleventh international council meeting ended in Cambridge yesterday and was attended by 300 delegates and observers from 43 countries.

Announcing the campaign, Mr Thomas Hammarberg, the international executive committee chairman, said it would also extend to the ratification of the European and Inter-American human rights conventions.

He added: "The individual suffering of the world's prisoners of conscience, untried political prisoners and victims of torture points up the international hypocrisy practised by governments who publicly profess their support for human rights but whose state policies systematically violate the dignity of the individual."

The council decided that while it will maintain its policy of reporting information on human rights violations it will not propose sanctions such as boycotts or cuts in aid against governments committing such violations.

Mr Hammarberg added: "This does not mean we are against this sort of economic pressure, but we feel it is just not in our field."

However, in cases where military, security and police equipment and expertise are likely to be used by recipient governments to detain prisoners of conscience, and to carry out torture and executions, it is a moral duty for us to oppose such assistance."

The council settled an internal controversy when it decided not to sponsor further medical experiments involving the use of either humans or animals. A group of Danish doctors had been seeking ways of combating torture, and their experiments involve animals. Although the animals had not suffered, it was thought wrong for Amnesty to continue to support such experiments, the council said.

The council set its international budget for next year at £1.5m.

Pym pledge on referendums to Scots and Wales

By Our Political Editor

A Conservative frontbench pledge not only to hold referendums on the Scottish and Welsh assemblies but also to fix the date of March 22 was made on Saturday by Mr Francis Pym.

Unsurprisingly whether a Conservative government would carry out the referendums, or implement their results, has been used as an argument to attract Scottish and Welsh nationalist support for Mr Callaghan's Government in the vote on the Queen's Speech.

Mr Pym, the Shadow Cabinet's spokesman on devolution, stated in Dumfries that it was false to question the Conservative position. If 40 per cent of the Scots and 40 per cent of the Welsh voted in the assemblies (the proportion is required in the Acts) then a Conservative government would recommend to Parliament that the assemblies be set up.

Mr Pym had himself earlier this year raised doubts over the Conservatives' intentions when he suggested that a Thatcher government would first want to see how different regions of Scotland voted.

However, Mr Pym's promise was denounced yesterday as a "trap" set for the Scottish nationalist by one of the government's leading Scottish MPs, Mr Ian Gilmour, Scottish Labour Party MP for South Ayrshire.

Man hurt in fall from 'big wheel'

A man aged 22 was recovering to hospital yesterday after being thrown off a big wheel device at a fair at Sandbach, Cheshire, on Saturday.

Mr Graham Wright, a building worker, had his fall broken by a tree 30 feet away from the machine. He suffered a broken arm.

A girl friend who was with him managed to stay in her seat on a machine called the "big wheel", which is like a steep aogie.

A spokesman for the fairground operators said the machine was fairly new. "The test papers of this machine are in order," he said. "We have passed to authorities. We cannot be responsible."

Architecture report

Broxbourne: Lido in a reclaimed area

In contrast to most other new leisure centres, Broxbourne lido is a semi-enclosed pool, built on a reclaimed area. It is situated on the northern edge of Lee Valley Regional Park, the lido is surrounded by trees, picnic grounds, a tennis court, and a large open area for children's play.

Further away can be found a new high-rise centre, an old public house, and a new London to Brighton railway viaduct.

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WEST EUROPE

EEC team visits Peking to prepare ground for 'exciting new opportunities' in trade with China

From Michael Hornsby Brussels, Sept 24

A large delegation of European Community bankers and industrialists, led by Herr Wilhelm Haferkamp, the Commissioner for External Relations, began a 10-day visit to China today to prepare the ground for what both sides hope will be a substantial expansion of trade.

As an earnest of the EEC's good will Herr Haferkamp will be able to inform his hosts of the decision taken earlier this month by EEC foreign ministers to add some 20 products to the list of Chinese exports granted free access to the Community.

Although these products have no great economic significance, the gesture is of symbolic importance in that hitherto the Community applied the same import rules to China as to other communist countries. Now, for the first time, China's privileged position on the EEC market, compared with the Soviet Union and other Comecon

countries, has been given practical expression.

The EEC move is the first step in the progressive liberalization of Chinese imports to which the Nine are pledged under the five-year trade agreement with China, which came into force on June 1. One of Herr Haferkamp's tasks will be to discuss a date for the first meeting of the EEC-China trade committee also envisaged in that agreement.

The rapid development of relations with China is in marked contrast to the stalemate in talks between the EEC and Comecon on a new framework for their trade relations, though there has been a steady rise in its exports of manufactured goods.

One of the main concerns of Herr Haferkamp's delegation will be to find out as much as possible about how the Chinese intend to finance the large-scale imports of capital and industrial goods which appear to be necessary if the development plans are to be realized.

Rampage by wildlife defenders

From Our Own Correspondent Rome, Sept 24

A series of well planned attacks in Bologna, some with fire bombs, have marked the birth of new conspiratorial groups.

The exploits of these wildlife defenders include freeing monkeys from the zoo and songbirds in people's windows, bombing the statue of King Victor Emmanuel II, known for his delight in hunting, daubing the local bunnies' association with red paint, and breaking the windows of an animal embalmist said to have been involved in the killing in Sardinia of an example of a rare species of flamingo.

The groups maintain that zoos are nothing more than concentration camps, that every living being needs liberty. They have broken the lock on the lions' cage at the zoo though the animals did not escape.

Queries for politicians on Moro murder

From Peter Nichols Rome, Sept 24

The strain of the aftermath of the killing of Signor Aldo Moro is now looking dangerous for the survival of the Italian Government, which was formed on March 16, the day of the Communist Democratic leader's murder.

This week the investigators of the killing are due to interrogate politicians who have been making statements on the affair. They include Signor Bettino Craxi, the Socialist leader, who apparently gave a version of the background of the murder to M. Francois Mitterrand, the French Socialist leader, critical of the behaviour at the behaviour at the time of the Christian Democrats and the Communists.

Senator Vittorio Cervone, a Christian Democrat and one of Signor Moro's friends, who maintains that the terrorists intended killing Signor Moro from the beginning and also dis-

credits the Socialist view that an effort should have been made to win his release, will also be questioned.

Signor Giulio Andreotti, the Prime Minister, repeated his belief this weekend that his Government and its parliamentary allies did well in refusing to negotiate with Signor Moro's captors. He made the point that the Government's allies all agreed on the official policy.

He was criticized today by the Communists, not on the Moro issue but on the alleged shortcomings of his Government in supplying the lead necessary to help the country out of its crisis.

The Republicans say that if the Treasury Ministry's three year plan for facing economic problems is not properly applied, they will move into opposition. At the same time, they attack the Communists for what they believe to be a return to ideological rigidity.



Roses at Dachau: Cardinal Stefan Wyszyński stands with a German girl of Polish descent during prayers in the Dachau memorial chapel. The Polish Prime Minister also laid a wreath of roses on the site of the former concentration camp where 10,000 Poles, including 858 priests, perished (Patricia Clough writes from Bonn). In a sermon in Munich Cathedral the 77-year-old Cardinal urged Poles and West Germans to live together as good neighbours. His visit is the climax of a long process of reconciliation between the Polish and West German Catholic churches after the horrors of the last war.

Napoleonic relics damaged in raid on admiral's home

From Our Own Correspondent Paris, Sept 24

The Corsican family home at Ile Rousse of Admiral Antoine Sanginetti, the Socialist brother of M. Antoine Sanginetti, was raided last Sunday by the Gaullist leader and former minister, was partly destroyed by explosives early yesterday. No one was hurt but many family heirlooms, including part of the admiral's collection of Napoleonic relics, were damaged.

Though it did not claim responsibility, the explosion appears to have been one of four on the same night caused by members of the anti-autonomist and nationalist movement, Franchia, a clandestine organization which recently announced its intention of reverting to violent action after a lull of several months.

What singled out Admiral Sanginetti for its attentions was his participation last Sunday in a demonstration in Bastia against the continued stationing of the Foreign Legion in Corsica, following several incidents with deserters, and his support for a far reaching degree of regional autonomy for Corsica.

Though he has not identified himself with the autonomist movements in the island, the admiral who was compulsory retired for criticism of Government defence policy, is suspected of being an autonomist sympathizer.

The Ambassador said he had given the President a personal message from President Brezhnev, which was described by the Elysée as important. The message arose from a meeting which the ambassador had with President Giscard d'Estaing in July.

Mr Tchervonenko said Mr Gromyko's visit would "help im-

prove good relations between the two countries". This is an implicit recognition that they are not what they should be.

In fact, since the beginning of last year, and particularly since the public condemnation by the French Government of the trial of Dr Yuri Orlov, the Soviet dissident, they have been under a cloud. The Kremlin described the French reaction as interference in Soviet internal affairs.

Soviet criticism of France's intervention in the Shaba province of Zaïre prompted the French Government to protest officially in Moscow.

A further source of friction has been President Giscard d'Estaing's plan for disarm-

Bombs and acid thrown in Brest demonstrations

Brest, Sept 24.—Police used tear gas last night to disperse anti-nuclear extremists in this port city after a mass protest against plans to build a nuclear power plant at Plogoff in southern Brittany.

About 20,000 people took part in the protest march. The demonstrators simulated a radiation disaster by lying down in the gardens outside the city hall. Most of them then dived into the sea.

Police used tear gas and helmets to break up the demonstrators who attacked the local electricity board headquarters with stones, fire-bombs and bottles filled with acid, police said. Five or six people were injured, according to the organizers of the demonstration.—Reuter.

Lisbon promotion

Lisbon, Sept 24.—Dr Gonçalo Caldeira Coelho, aged 59, Portuguese Ambassador in London at the time of the 1974 revolution, has been appointed Secretary-General of the Ministry of Foreign Affairs, the most important post after that of the minister.

The rift in Franco-Soviet relations has affected trade between the two countries. Soviet orders in France dropped from 7m francs (£800,000) in 1976 to 2m francs in 1977.

President Giscard d'Estaing is known to believe that the somewhat defensive posture provoked by the human rights campaign in the Soviet Union is on the wane. Détente with Russia remains an intrinsic part of French policy, and the time has come in his view to mend the fences between the two countries.

Mass motor cycle safety rally ends in disaster

From Charles Hargrove Paris, Sept 24

Ten thousand motor cyclists, armed with steel, held in thrall for several hours Friday night as part of a sive protest rally against statements by M. Chi Gerondeau, the Governor of the Paris Region, calling for a heavy toll of accidents.

But what was originally intended as a breath of fresh air for the big motor cycles and a responsible behaviour of riders ended tragically. It was all over, a group of heads were involved in a collision on the ring road around Paris, and 25 injured, four severely.

"It's always the same of the motor cycle fan," he said. "They are a minority who do something and discredit all the A.P.Y. because our demerit was a resounding success."

Barring the deafening of thousands of exhaust fumes, the sirens and flashing headlights punctuated this night of angry motor cyclists' protest had gone too far, thanks to the police and the organizers, the Association of Independent Motor (A.M.I.).

The cavalcade was a half a dozen cars. A police dispatch rider, shepherded it across the city, for it ignored all traffic lights of ways, and has hampered the whole bread of traffic.

The organizers were gratulating themselves success of the whole s 2 am. M. Jean-Jacques B. secretary-general of the was shocked out of place by reports of 1 collisions.

And officers are down dumps, even though Ministry for Youth and has practically disown Gerondeau, and said th no question of the Gov banning the monsters c and above.

Government gives way to Spanish police solidarity

From Harry Debellus Madrid, Sept 24

The Government backed down here this weekend as Spanish police force against an attempt to silence outspoken right-wing police officials.

In the latest round of the struggle to reform the Franco-trained police forces, the Professional Police Association (APP) expressed public support for recently disciplined officers, confirmed them in their offices as leaders of the association and reiterated its adherence to

Mass cycle rally in

Agreements at Camp David approved Israeli Cabinet

Michael Knipe

Sept 24

An eight-hour session of the Israeli Cabinet approved the Camp David agreement by 11 votes to two, with ministers absent. This means that the Cabinet, in effect, the supplanting of the agreement by the Israeli Cabinet, which is the only settlement in the peninsula must be dismantled to back the Camp agreement, by 221 votes with four abstentions. The Knesset meets later to endorse the agreement and thus the dismantling of settlements, a large vote in favour seems

decision to dismantle the settlements is causing many of the legislators considerable concern. However, it will be the first time any recent Jewish settlement has been willingly dismantled and it clearly causes heart-searching right in the political spectrum. The apparently voiced disquiet at the prospect being won over by the arguments of Mr Begin, the Minister. The two dissenters were Mr Yigal Hurwitz, Minister of Industry, Commerce and Tourism, and Mr Shostak, the Minister of

Health, the representatives in the Cabinet of La'Am, one of the five factions in the Likud which heads the ruling coalition and perhaps the most fervently nationalist.

The three ministers who were absent were the representatives of the National Religious Party, whose executive is to meet tomorrow to decide the attitude it will adopt in the Knesset debate. The party is deeply divided between its doves and hawks.

In voting to support the Camp David agreement the Labour Party attempted to save its collective conscience by calling on its representatives in the Knesset to do everything possible, within a parliamentary framework, to avert the evacuation of the settlements.

This is not likely to be much, as the Israeli delegation to the summit meeting has made it quite clear that the whole of the peace agreement is dependent on the evacuation of the settlements.

Mr Begin and his supporters are understood to have argued in the Cabinet that there is no connection between the agreement which Israel and Egypt will conclude and those concerning other fronts. They maintained that Israel and Egypt were heading towards a true peace which involved extreme concessions by both sides.

Supporters of settlers arrested in clashes

Jerusalem, Sept 24.—Several members of Israel's ultra-nationalist Gush Emunim movement which opposes the Camp David agreement were arrested last night while demonstrating outside the home of the Minister of the Interior, Mr Yosef Burg, here.

Earlier, dozens of demonstrators had gathered outside the home of Mr Menachem Begin, the Prime Minister, where they were confined by police as they said prayers and intoned religious chants. But then a breakaway group headed for Mr Burg's home.

Clashes with police developed and several demonstrators were arrested.

Early today Israeli soldiers evicted another group of Gush Emunim squatters from an unauthorized settlement on the occupied West Bank. It was the second time in three days the squatters had succeeded in re-occupying the settlement.

The Gush Emunim movement believes Jews have the right to settle anywhere in their biblical homeland.

On Friday, a Jewish woman evicted from an illegal West Bank settlement by Israeli soldiers gave birth to a son a short time later with the help of an Arab doctor, Israeli authorities reported today. Agency France-Presse and Reuter.

Patriotic Front ready for talks if no 'duplicity' by Britain

Mr Mugabe says Rhodesia peace still possible

From Lawrence Pinak

Maputo, Sept 24

Mr Robert Mugabe, leader of the Zanu guerrilla organization, says a negotiated solution to the Rhodesian conflict remains possible, but "dishonest" manoeuvres by Britain and the United States could destroy any chance of peace.

In an interview, Mr Mugabe—who with Mr Joshua Nkomo heads the militant Patriotic Front—accused Anglo-American negotiators of attempting to split the alliance and arrange a deal between Mr Nkomo and Mr Ian Smith, the Rhodesian Prime Minister, which would leave him out in the cold.

Dr David Owen, the Foreign Secretary, and Mr Cyrus Vance, the United States Secretary of State, were directly involved in setting up the August 14 meeting in Lusaka between Mr Nkomo and Mr Smith, he said. "I was informed the British and Americans were being briefed about the progress being made in getting us and Smith together," he added.



Mr Mugabe: "Responsibility rests with Britain."

Mr Mugabe was not present at the Nkomo-Smith meeting, but was later briefed by Brigadier Joseph Garba, the former Nigerian Foreign Minister.

When the Nigerians were briefing me on the meeting, Owen was glued to his telephone," he said. The Zanu leader claimed

Anglo-American efforts to arrange an all-party conference on Rhodesia were merely a smokescreen to cover covert attempts to bring Mr Nkomo and Mr Smith together.

The Western motive was to establish a government in Salisbury which London and Washington could "dominate", continuing their "neo-colonialist" attitude towards the breakaway British colony.

The only reason the attempt failed was that Mr Nkomo realized what they were doing and refused to return to Salisbury without Mr Mugabe.

Nationalists in both the Zanu and Zapu camps were convinced Mr Nkomo, the Zapu leader, would have been discredited, as they believed the three internal black leaders had been, thus weakening the Front's attempt to unseat the Salisbury Government through force.

Mr Mugabe claimed that the open split which developed earlier this month between the two wings of the Front was actually only a temporary dis-

agreement, and that the dispute was misinterpreted. "We talked over the conflict in Addis Ababa (earlier this month), and there are absolutely no differences," he insisted.

The Nkomo statement that the chance of an all-party conference was "dead" and buried" came in response to the Rhodesian Prime Minister's declaration of martial law, but was made "against the background of the agreed position of the Patriotic Front", Mr Mugabe said.

The organization remained ready to hold talks with Britain "as the colonial power", so long as they were arranged by London, and so long as Britain did not try to merge the Patriotic Front with the three internal black leaders.

The responsibility for beginning new talks, he emphasized, rested squarely with Britain. If they continued their "duplicity" and "dishonest behaviour", there could be no peace.

Mr Nkomo tells Britain to 'keep out'

By David Spanier

Diplomatic Correspondent

Mr Joshua Nkomo said yesterday that the Patriotic Front would continue to exist and would intensify its fighting against the security forces in Rhodesia, and that he was not prepared to attend a conference as the British Government was urging.

"An all-party conference is dead," Mr Nkomo said, and added that there was no difference of opinion on this question with Mr Mugabe, his co-leader in the Patriotic Front.

Mr Smith, the Rhodesian Prime Minister, had claimed that 350 people were killed in one week and 700 of his (Mr Nkomo's) supporters in Zanu had been arrested. "Who knows who those 350 people were? No one knows who they are. Are they still alive or not? That is the question."

"Under those circumstances, we can't go back to those savages for more talks," The Patriotic Front intended to fight the war to the end.

"We do not want Britain to intervene. We don't need the British. We don't want to be re-colonized by Britain. We are doing it ourselves—so keep out."

Asked what would happen if Mr Smith decided to end the rebellion and return to legality, Mr Nkomo replied: "Don't talk about that. What we need is a settlement. It is for the people of Zimbabwe to decide."

Mr Nkomo, who was speaking on a BBC Radio Four phone-in programme yesterday, said if the British Government had been honest and sincere the Smith regime would not be there now. It had been sustained by the action of the British Government.

There would be no election this year, Mr Nkomo added. Therefore there would be no independence by December 31. He hoped, however, that the whole problem would be solved

Crimony at Damascus summit

From page 1

President Sadat in a cratone that was as it was allegedly

Egyptians are privately concerned at the reaction of Arab states and the recently muzzled too has been gently its disquiet. seismic shocks delivered peace agreements in America last week from died down in the world. While Egypt's weekend preparing to an envoy to Geneva to King Khalid of Arabia some finer points Camp David agreement, ussain of Jordan told a conference in Amman a government had been "red" by the news of Israeli-Egyptian peace

King predicted "very repercussions" if it was to sign a separate with Israel, and said the whole Camp David ent was unacceptable an without "substantial

changes". His country would not bargain over an inch of Palestinian territory.

Neither Mr Vance nor President Assad will have missed the inference that if substantial changes are made in parts of the Camp David accord, the acceptance might become more apparent to the Jordanians.

Similarly Saudi Arabia, though it has voiced its criticism of Camp David, has made it clear that it will not interfere with Egypt's decision to try to regain its own territory. Stripped of their rhetoric, the resolutions that were made public after the rejectionist summit, fall into five categories:

1. An economic, political and diplomatic boycott of Egypt and an attempt to encourage "progressive and nationalist forces" (ie, Egyptians opposed to Mr Sadat) to take over the government.

2. The removal of the Arab League headquarters from Cairo and the establishment of a new league if this is not done.

3. Closer ties with the Soviet

Union and other communist countries, as a warning to the United States.

4. A visit to the Soviet Union by President Assad to consolidate opposition to Camp David.

5. The setting up of a joint political and military command, comprising Syria, Algeria, South Yemen, Libya and the PLO.

While these points may reflect a surface glamour for the radical Arab states, they are not quite as dramatic as they seem at first sight. At the summit, for example, the rejectionist states talked about isolating Egypt—but then took no action. And Syria will be the last of the Arab countries to let either the Soviet Union or the Egyptian Arab neighbours to have any real say in its policy-making.

Thus, this very call for a united opposition to Camp David will only serve to emphasize the impotence of Mr Sadat's enemies. Indeed, the call for Egypt's isolation, if it is not heeded by every Arab state—and it will not—will only further divide the Arab world.

Stiff upper lip in US toward Arab coolness

From Patrick Brogan

Washington, Sept 24

The Americans are putting on a brave face on to the lack of enthusiasm shown by the Arab world for the Camp David agreement. Mr Zbigniew Brzezinski, the President's national security adviser, said on television this morning that he hoped that as the negotiating process got under way, it would become possible for Jordanians and moderate Palestinians to join in.

This is the line that has been followed here since the agreements were signed a week ago. Every rebuttal from Saudi Arabia or Jordan, and every conspicuous failure to offer support by such staunch allies as Morocco and Sudan, has merely led to repeated assertion of faith in ultimate success.

Mr Brzezinski said: "Our expectation is, that as the process begins, it will create a more felicitous circumstances permitting moderate Palestinians to participate. President Carter has been campaigning around the country and dealing with other matters but he has found the occasion to say much the same thing. In a speech yesterday he expressed his optimism of the long-term chances for peace but admitted that King Hussein's initial refusal to cooperate would make the negotiations much more difficult.

23 wounded in Beirut night shelling

Beirut, Sept 24.—Syria

troops fired more than 450 rockets and mortar shells into two Christian areas of Beirut today in an escalation of their offensive against strongholds of Israeli-backed Christian militants.

At least 23 people were wounded, five critically, in the pre-dawn bombardment of the capital's exclusive Badaro quarter of the middle-class suburbs of Hadath, Christian sources said.

The latest casualties brought the number of casualties in the three-day Syrian offensive to three dead and 50 wounded.—UPL

Mr Moi is sole candidate for Kenyan presidency

From Charles Harrison

Nairobi, Sept 24

The acting President of Kenya, Mr Daniel Moi, is the sole candidate for presidency of the ruling Kenya African National Union (Kanu), in succession to President Jomo Kenyatta. He is the only candidate for the national presidential election, which must be held within 90 days of President Kenyatta's death on August 22.

Mr Moi presented his own nomination papers yesterday at party headquarters here supported by a large group of ministers and other party leaders. Acceptance of his nomination at the special delegates conference of Kanu on October

6 is a foregone conclusion and the party will then present him as sole candidate for the presidential election.

Once he becomes substantive President of Kenya, Mr Moi may appoint his own vice-President and make changes in the Cabinet.

He also then acquires full powers of detention. But Mr Moi gave a public assurance on Friday that he would use these powers only as a last resort in the case of a threat to national stability.

The Nairobi Times today welcomes this statement, suggesting that Mr Moi should, after being sworn in, release those now in detention.

Newspaper finds reasons for apartheid at meal times

From Nicholas Ashford

Johannesburg, Sept 24

Black people in Johannesburg do not on the whole want to eat meals in restaurants which are reserved for whites, according to a survey published in the Afrikaans newspaper Die Vaderland. They prefer to eat in the open or else to kick a football around during lunchtime. Therefore, the survey concluded, it was not necessary to open restaurants in white areas to people of all races.

The question of who eats

where is a matter of consuming interest to many white South Africans. As the law stands, all restaurants in white areas are for whites only, except in a few international class hotels where blacks are allowed the privilege of eating next to (or even at the same table as) Europeans. Elsewhere it is a criminal offence for a restaurateur to seat a black person at a table, even if his white patrons have no objection.

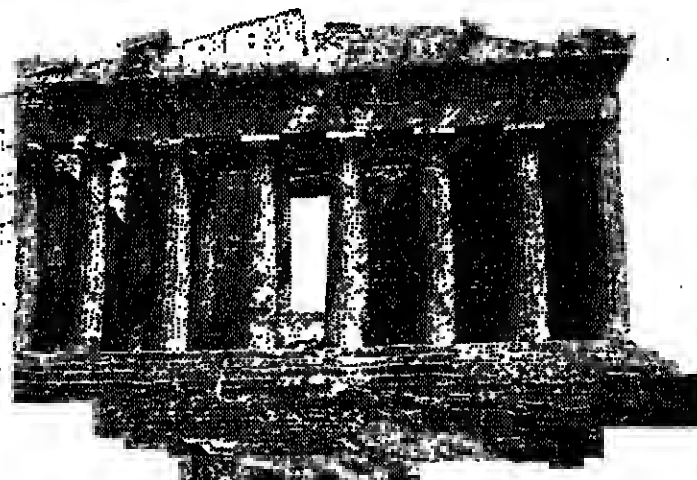
At present, there is one blacks only restaurant in central Johannesburg, a plush establishment which caters for black executives.

Recently, a number of eating establishments in Johannesburg have been quietly turning a blind eye to the law. Like many members of the business community, restaurateurs have realized that the colour of the money in a person's pocket is the same whatever the colour of his skin. Black customers can now regularly be seen in at least a dozen white restaurants and there have been hardly any complaints.

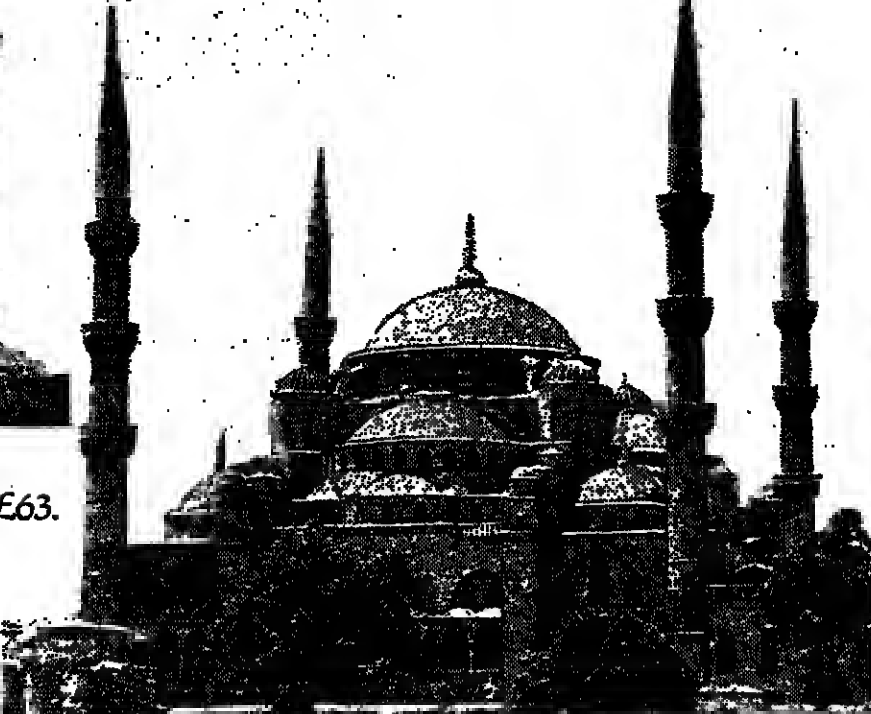
However, the Government, which has set up a special Cabinet committee to look into the question of the "crowding out" of whites by blacks in segregated places such as parks, roads and libraries, has now taken action to stop this trend. A week ago it rejected 15 applications by leading Johannesburg restaurateurs for permits to serve meals to people of all races.

However, the newspaper did not quote what blacks had to say. Had it done so, it might have had to eat its own words.

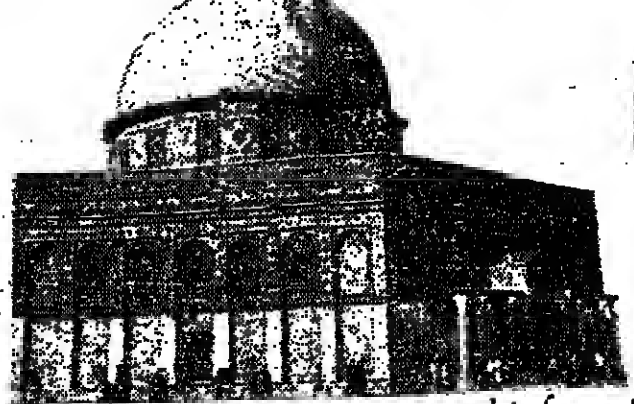
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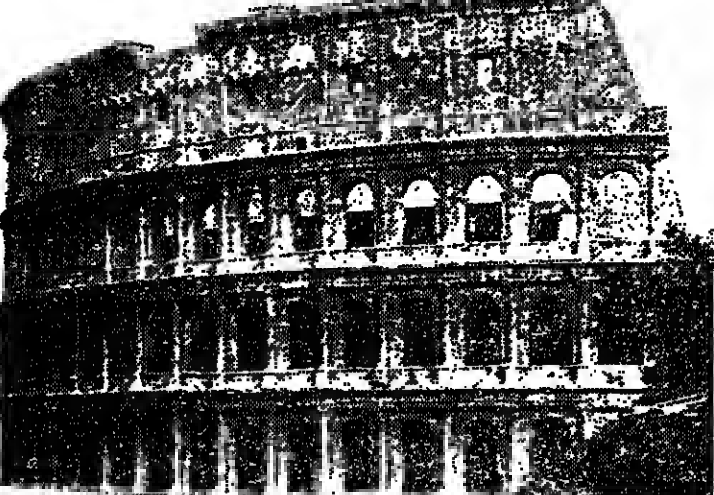
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Argentina's national team the Pumas have

Main fixtures

The Pumas fixture schedule includes:

Oxford: 27; Wales B: at Lincoln: 28;	Tenby: 29;
Doncaster: 30; Southern XV, at Twickenham: 30; London XV, at Twickenham: 30;	Southern XV, at Twickenham: 30;
London XV, at Twickenham: 30;	Northern Counties, at Headingley: 31;
Lancashire XV, at Old Trafford: 31;	Leeds University, at Leeds: 31;
Leeds University, at Leeds: 31;	Leeds University, at Leeds: 31;

Rugby League

Blackpool ready to show off

Late in the game, after Warrington had lost their hooker Dalgreen and scrum half Gordon through injury, respectability and realism overtook the scoreline when Bevan and Hunter scored

Bennett takes an a
and when Quinnel

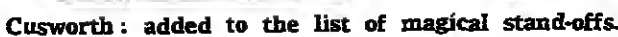
However, Akenhead's penalty goal reduced the margin by the interval to 8-3 and signalled

Rugby Union results

Aberavon	13	Cardiff	14
Abertillery	7	Maesteg	12
Bath	15	Exeter	9
Birmingham	9	Lydney	14
Bridgend	35	Pontypool	7
Blackheath	18	Northampton	13

of brightness

ford Northern 26; Milford Amateurs 5.
Dewsbury 38; Wakefield 27, Batley 31.
New Hantslet 7, Hull 17; Leigh 13.
Nuyton 13; Nuddersfield 10. Widnes 21.
Kerley 20, York 4; Warrington 14.
Blackpool Borough 4; Hull Kingsled
Rovers 67. Oldham 11; Whitehaven 3.
Featherstone Bovers 9.



Wide holes Scottish defence

When time a up with Cove

Motor cycling
Sheene beats rival and

Kork Ballington, the world champion in the 250cc and 350cc won both events. He thus retained

Gloucester, the Job
holders and unique

After a brisk start, Bristol found themselves seven points

and Sale caught ntry

Motor racing
Jarier stands in

McLaren. He will replace John Watson, who is almost certain to become No. 1 driver for McLaren in place of Peterson.

French Racing Correspondent
Paris, Sept 24

[illegible]

the view and having originally accepted the mount at Leopardstown on Sexton Blake switched mounts later on Friday and not for the first time on such occasions picked the right one.

With the ground riding firm at the Curragh by now this must be a useful stay for she got into a lot of at the halfway stage and from virtually last place into the straight to win a half length.

Plumpton N H programme

2.15 KINGSTON CHASE 234 Straight Scotch, 11-10-

3.45 SOUTH DOWNS CHASE
(Handicap: £1,144: 2m)
On-2 Colonelio, 9-11.33 M. M. Flynd
ppO- HUI Fly, 6-10-0 T. Muggelridge 7
4.7 Frisky Doogan, 9-11.33
6-1 Organised Chaos, 10-1 Bol
Daventry, 12-1 others.
SELECTIONS: 2.15 Ballyho
2.45 Bishop Burton, 1.15 Jac
3.45 Colonelio, 4.15 Court Go
Frisky Doogan.

West Germany's growing concern over its not-so-secret service

Cologne. Driving along the Innere Kanalstrasse, a busy thoroughfare in Cologne, many a German must have noticed a disconcerting sight at a dull, anonymous office block behind a high barbed-wire fence.

It is really a bulwark of West Germany's democracy or does it house some embryonic Big Brother? Some grave insidious danger to the freedom it is supposed to defend?

Events have combined to give the Federal Office for the Protection of the Constitution (Verfassungsschutz) a reputation which is difficult to shake off—events like the bugging of a nuclear scientist who had friends in terrorist circles; lists passed on to border police of hundreds of supposedly extremist, but in fact largely innocuous, publications and organizations to be watched.

There have been reports, as yet unsubstantiated, that it notes down who takes left-wing books out of libraries. People who unwittingly sat in the same railway compartment as a terrorist contact have been entered in its computers as "contacts of contacts".

Its image, as far as the left-wing is concerned, has become further tainted, in connection with the Bormann trial, the practice of excluding members of communist organisations from public service jobs. The Verfassungsschutz, as it is called in German, is required to provide the authorities with information it has on prospective candidates for high office.

The incidents have prompted not only extremists but also

more liberal Germans to ask themselves whether their country is on the way to becoming a surveillance state—a veritable Stasi.

The public and sometimes emotional debate about the aims and methods of the Verfassungsschutz might surprise the average Briton who probably has at the most only a vague idea about how such things are done at home, and certainly does not sleep about it.

Even more astonishing, in view of all the fuss, is that here, for the most part, the word and image is replaced by glowing and not tape. James Bond fans must find it difficult to imagine a secret service which publishes an annual report, has a press office and produces booklets about how it works.

The name of its president, Dr Richard Meier, is so official handbook and a parliamentary control commission is there to watch for abuses and its agents are bound to obey the law.

In addition there are two other checks on its activities which the constitutional fathers can hardly have foreseen. One is a habit of leaks, whether from inside or outside the organization is not certain, which has disclosed questionable activities but also served to hamper legitimate investigations. The second is the political row which accompanies any *fanz* pas.

The Interior Minister who is in charge of the Verfassungsschutz is held personally responsible for mistakes and would be regarded as weak and in-

competent if he did not know what his subordinates were up to.

This rather curious situation is the result of an attempt to learn from two lessons of history. The inability of the pre-war Weimar democracy to prevent the Nazis coming to power legally has shown that a German democracy must have the means actively to defend itself against those who might subvert it from within.

Secondly, bitter memories of the Gestapo and the SS have ensured that the Verfassungsschutz was given no executive powers. It cannot question or arrest anyone or search premises. It can only pass on the information it has gathered in the appropriate authorities. It is the state's memories which have made the whole subject a highly distasteful and sensitive issue to West Germany.

Difficult times for the Verfassungsschutz started with the upsurge of the radical new left in the late 1960s, their threat to "march through the institutions", and later, with the emergence of terrorism. In a period of a few years the organization came, as leading officials say, an industry of information "about extremists".

Running a secret service in the glare of publicity is not easy. The Verfassungsschutz people enjoy the discretion which surrounds their activities. "They live in paradise, they don't know the problems," they say.

Every time a touchy case comes up they have to think not only about their work but how it is to be handled politically. Ministers and officials must be informed and their

backing obtained, the possible consequences, if things go on wrong, must be worked in advance.

One example of the difficulties was the case of the placed in the nuclear science home. The possibility of terrorists gaining access to our installations or nuclear how was appalling, yet by an individual's privacy inviolable.

The resulting scandal contributed to the later downfall of the Interior Minister of the West. Any other East secret service have been placed? The Verfassungsschutz people believe they would. Officials feel that the actions of unwarranted suspicion and sinister behaviour as a result of distorted press and ignorance about their task.

Nevertheless, the exit of lists drawn up with authorization by Junior of supposed extremist organisations and organizations include such things as far civil action groups and far magazines made people w about the real atmosphere of the organization.

Another problem is psychological effect on radicals of being spied upon, having their mail or The Verfassungsschutz is that it is making many into lifelong enemies system it is there to do. But in the future Strasse there is no such this. This is the nature of our work. It is our problem.

Patricia Cl



Are the days of State control numbered?

We are, I believe, on the verge of establishing a breakthrough in parliamentary control of government expenditure, and thereby of control of the executive. Coincidentally, and no less importantly, the tide of state control of the individual and of business can be made to ebb. When the House of Commons rose on the afternoon of Thursday, August 23, I felt convinced—as did most of my parliamentary colleagues on both sides of the House—that the next time we would assemble in this Chamber would be on our recall to hear Mr Speaker announce the prorogation of Parliament. This was not, as it sometimes can be, a reflection tinged with sadness. I was, in fact, pleased to think that what in a couple of months the country would be able to elect a fresh government. The present administration is exhausted, and most certainly should have stepped down. But Mr Callaghan chose to labour on. I fancy that in due course his and his colleagues will pay dearly—and so may the country—for this gross miscalculation of the nation's need.

I have been a candidate in nine parliamentary elections and I hope, if my supporters in Somerset are generous enough to reelect me, that I shall be a candidate again at the next general election. Inevitably the prospect of a new election provokes recollections of past campaigns; not least the triumph of Harold Macmillan in 1959 after the debacle of Suez, Britain then was booming economically. Prosperity was taken for granted. So were rising living standards.

The confidence of the 1950s gave way to the doubts of the 1960s. The economic boom vanished and with it the prospects of future prosperity on which the prophecies of near-external conservatism were based. The 1970s heralded the arrival of a recession, the unhappiness (and growing) evidence of which is all about us. Now, doubt and uncertainty prevail in every quarter and especially among businessmen. The ability of the Treasury economists to forecast and to manage is discredited.

Governments bear a heavy responsibility for their failure to provide effective leadership,

or even competent management over these years. Conservative and Labour administrations are both blameworthy for the fact that government expenditure, the greatest of all the inflationary forces, careered wildly out of control from 1972 and 1975. The modern interventionist policy is subtle. Thus the National Enterprise Board controls vast amounts of public money and invests apparently capriciously. The British National Oil Corporation controls even greater resources. Day by day the power of the state increases. The Prime Minister is, in effect, a short-term President. Government patronage is immense, financial and personal. Parliament no longer pretends to control, let alone scrutinize effectively the actions of the executive. Government does not control industry through ownership alone; it controls it no less effectively by largesse or by physical controls—or simple harassment.

I do not believe the tide of intervention, and growing control, is inexorable or inevitable. There is now upon the back benches on both sides in the House of Commons a growing determination to strengthen the powers of Parliament over the executive. In a debate which I initiated in the Commons last May the unanimity of back bench MPs was striking. True, the forces ranged against us are formidable. Our strongest opponents are the 120 ministerial placemen. There are many natural aspirants for office among the Opposition who also would prefer not to disturb the status quo.

It is so much easier to decide policy in the privacy of Cabinet and its committees than on the floor of the House of Commons. It is so much easier to rely upon unlimited public funds than to be forced to budget like a private citizen. It is all so much easier if one can avoid scrutiny by conscientious and well-informed back bench MPs. The business of Government is too important to be left to ministers and their shadows. Expediency has been too long their mistress.

The select committees of the House of Commons, notably the

Public Accounts Committee and the Expenditure Committee, have not been idle, and the Treasury has been their ally. In reports of the PAC published in 1976-77 and in May of this year (supported by other reports from the Expenditure Committee) we proposed that the new cash limits which will affect some 65 per cent of all supply expenditure should be assimilated with the estimates. This means that, in future, cash limits and the estimates will be framed on a common price basis; in terms of the money which is expected will actually be spent.

The figures will thus contain an allowance for inflation. They will also contain an allowance for estimated wage and salary increases. The importance of the latter from the point of view of pay policy cannot be over-estimated, bearing in mind that approximately half of government expenditure comprises the pay of civil servants and others.

If the estimates and cash limits represent figures for real spending this means that any supplementary estimates, presented to Parliament in future, be of greater significance. Presently the House votes huge amounts of money by way of supplementary estimates in order to compensate for inflation and increases in pay, on the nod (as the saying is).

Henceforth supplementary estimates which they are presented to Parliament will merit proper scrutiny. In this way financial disciplines will be tightened and a greater measure of control over government expenditure will devolve on the Treasury, upon departments, and finally upon Parliament.

All this is significant enough, but the long-term significance of this development is even greater. It means, in effect, that a determined government will in future be able to regulate by its control of cash limits and estimates the proportion that government expenditure bears to the GNP.

If there is allied to this ministerial determination a where there is scope for economy without damage to the social fabric, then it will become

possibly possible over the lifetime of a Parliament either substantially to reduce the public sector borrowing requirement, or virtually to dispense with it altogether. Thus the insatiable government demand for capital would be removed, and the distortions of the capital market would disappear. Equally the current high level interest rates, brought about by a greedy government's financial selfishness, would end and we would look forward to a period of lower domestic interest rates in consequence.

Financial disciplines imply priorities for expenditure. If, in future, departments are to be obliged, because of the limitations on expenditure imposed by Parliament, to submit every one of their activities to a careful examination then we are indeed at the verge of revolution.

It would mean that those activities which are valuable and worthwhile could be continued while those which are of lesser importance could be abolished in order to release funds for essential activities.

These new financial procedures are due to be introduced, if the House agrees, in the next financial year. They will become universal in so far as two thirds of supply expenditure is concerned in the financial year 1980-81. Thus for the first time in the last decade there will be a real opportunity to bring the greater part of government expenditure under proper control.

Let this message of hope replace the uncertainty and despair which bears down upon the ordinary citizen who contemplates the omnipotence of the state. The tide of state intervention, interference and control has been a long time on the flood. It need not be forever. Even the highest tide can turn, and in the case of ideas which comprise human activity they can be made to turn.

It has been high tide for too long. The ebb is to be welcomed.

Edward Du Cann

The author is Conservative MP for Taunton.
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Anthony Howard, former Editor of the New Statesman, joins our regular columnists

What Ford can offer Mr Callaghan

The threatened Ford shut-down means that the gambler has been beaten. Mr Callaghan, but Mrs Thatcher?

Let us begin by taking one piece of television evidence from the 1970 election. The Tory election broadcasts of that year were generally rated a distinct "plus" for the then Opposition. Following ITN's *News at Ten* format, they enabled the Conservative media advisers of the time to incorporate "spot" commercials in the middle of the broadcasts. One of those "spot" commercials I remember very well. It showed a refrigerator door opening, a hand going in and, when it came out holding something, a voice saying: "Do you recognize this? It's a frozen wage packet. Vote Labour on 18 June and you'll get it again—in the family size".

Of course in politics you never can tell. But I should frankly be astonished if Mrs Thatcher or even Saatchi & Saatchi were to risk so naked and blatant a free wage bargaining appeal as that today. Whether they welcome the fact or not, the contours of the average elector's economic geography have changed. In principle for others, though not for always in practice for themselves, most voters are now prepared to concede that wage control is the only sensible and rational policy for Britain in the present economic climate.

Which is where, or so it seems to me, the strength of Mr Callaghan's political position comes in. By encouraging the Ford management to stand firm, and if necessary applying some muscle to see that they do, he is bound, I believe, to get the great weight of public opinion on his side. (He will also, though this is a side-argument, make it very difficult for the Conservative to go on pretending that his Government is in the pocket of Mr Moss Evans, or any other union leader.)

Let us now look, by contrast,

at Mrs Thatcher's position. If the Ford dispute proceeds inexorably towards a protracted official strike, what is her attitude going to be? We already know from the speech she delivered at Glasgow last January that she favours "the withdrawal of government from interference in wage bargaining" (afterwards explained by some of her more embarrassed colleagues to have been a view intended to apply to the private sector only).

Rival doctrines put to the test

Yet Ford's, of course, is in the private sector. Indeed, it would be hard to think of a firm more exactly meeting the requirements that Mrs Thatcher makes in the case she frequently puts in favour of "responsible collective bargaining". There is, after all, no question that Ford's has the resources totally to disregard the Government's pay policy. Even the British part of the company makes excellent profits (£240 million last year); and, since it is strong and healthy, it is a firm on which the Government can hardly be confident of exerting any pressure even by relying on the tactic of the "blacklist"—something any way that Mrs Thatcher and her colleagues have never hesitated to denounce.

It is doubtful, in fact, if anyone could have invented a dispute so meticulously designed to put Mr Callaghan's and Mrs Thatcher's rival doctrines of wage control to the test. For the Prime Minister and the Chancellor (though not for all their supporters) a planned wages policy is an essential part of a planned economy in the interests of all; the policy has to be comprehensive and all-encompassing.

To Mrs Thatcher (though not perhaps anything like to clearly to her main spokesman in these

matters, Mr Jim Prior): if the Ford dispute proceeds inexorably towards a protracted official strike, what is her attitude going to be? We already know from the speech she delivered at Glasgow last January that she favours "the withdrawal of government from interference in wage bargaining" (afterwards explained by some of her more embarrassed colleagues to have been a view intended to apply to the private sector only).

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A strike at Ford — whose problem?

The Prime Minister and the Chancellor—canny politicians, both—know, of course, that the party that gets on the wrong side of the wage-control argument always tends to lose the subsequent election: that was as true of Harold Wilson in 1970 as of Edward Heath in 1974. But what today is the "wrong" side of the wage-control argument? Is it possible that in the next election the Conservative will be in the pocket of Mr Moss Evans, or any other union leader?

Let us now look, by contrast,

LEAPMAN IN AMERICA

There was an Englishman, a Chikanan, a Finn, a Bulgarian, two Norwegians, two Swiss, three Japanese, a German, a Hungarian, an Italian, a Spaniard, a Turk, a Yugoslav, a man from Singapore and an American. What sounds like the world's most ambitious Englishman / Scotsman / Irishman joke was in fact a visit by a party of New York-based overseas reporters to look at some advanced American scientific and technological projects.

It was organized by what used to be called the United States Information Agency, whose name has been changed for opaque reasons, to the International Communications Agency. (Its new initials, ICA, mean that it gets confused with the CIA, which cannot have been the motive.)

From time to time the agency organizes parties of foreign reporters to make forays across the country to get a first-hand look at something or other. Anxious that the trips should not be regarded as tourism or what are variously referred to as boondoggles or junkets, the government pays for the travel but not for hotel accommodation.

In order to establish their seriousness from the start, they made us report to New York's La Guardia airport for the first leg of the trip at 6.45 am, though there was no need for it. Our first port of call was Washington for briefings by the agency's scientific advisers. "You are setting off on a week's adventure," he told us, and instructed us that science writing must be accurate, clear and interesting.

Subsequent briefings were from senior science people at the White House and the State Department, from which it emerged that the present vogue phrase in science is "technological transfer". (It means translating scientific advances into reality by embodying them in new technology and making it available where needed. At least, four speakers used the term during the trip.)

That night we flew to Jacksonville in Florida, and the next morning found us being sprayed with insect repellent for a swamp alligator-infested forest south of the city. We had been forewarned to wear stout shoes and cool clothing.

The purpose of the woodland jaunt was to show us how timber companies assess and grade their forests to decide when they should be cut. The com-

pany, cooperating with the National Aeronautics and Space Administration (NASA), are experimenting with a satellite which can gather the required information from high in the sky, avoiding mosquito bites.

After a lumberjack's steak lunch in a forest cabin, we headed west in an inordinately long flight to San Diego. There, we visited the Salk Institute, to learn of research into brain disorders and cancer from a public relations man in a blue corduroy suit who talked not only of technological transfer but also of the "cutting edge of science".

We were allowed a leisurely weekend in San Francisco before another crack-to dawn start on the Monday for our visit to Livermore, some 40 miles away. The Lawrence Livermore Laboratory conducts research into nuclear weapons and new energy sources. The second of those topics was the one we were studying.

I wanted to the place right away when I opened the press kit and found, on top of it, an order form for our picnic lunch. It included not only 25 choices of sandwich but also a little note explaining some of the fillings—Cemosa, Copicella, Mortadella and Corto Selami.

atoms together rather than pulling them apart. We saw Shiva, a giant laser beam, used in the fusion process. We also peered into some shallow pools being heated by the sun to provide hot water.

Another gruelling flight followed, to Denver in Colorado, where we arrived after midnight and were taken to the Hilton Harvill House, a rather obscure link in that famous hotel chain. The hotel had failed to compare that chronic weakness in American catering technology—service of breakfast.

On a form hung over the door handle, I ordered mine to be brought to my room at seven o'clock. I arrived just before eight and I complained moderately.

"Let me give you some advice," the waiter said condescendingly. "If you want breakfast at seven, then you must order it for six."

The diet came too late because, after a day at the National Oceanic and Atmospheric Administration in Boulder, talking about the weather, we were off on our cross-country travels again, flying via Chicago to Huntsville to Alabama, where we were to look at the space shuttle project.

We saw the shuttle plane and



The lunch took place in a vineyard and winery near the laboratory. Afterwards, we were taken on a little tour, followed by a wine sampling session from which our guide found it hard to drag us away.

As for the laboratory itself, its main effort in the energy field is in producing power by nuclear fusion rather than the more perilous nuclear fission. (Essentially, it means they join

atoms together rather than pulling them apart. We saw Shiva, a giant laser beam, used in the fusion process. We also peered into some shallow pools being heated by the sun to provide hot water.

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its various bits of supporting machinery, and in the afternoon were taken off to the Alabama space and rocket park where we had a simulated ride to the moon, complete with centrifugal drag, said buffet to the first space monkey and played that electronic game which involves trying to get a rocket across the face of a television screen without being hit by one of the meteors shooting across its path.

It was a relaxing way to end what had been an arduous journey, which led us to the anticipated conclusion that the Americans are indeed doing some mighty impressive scientific research.

Yet seeing that a large part of our time was spent in lordship flying, it is reasonable that our dominant impression of the eight days should have to do with air travel.

Including changes, we made nine separate flights. All but one (delayed by the weather) took off and landed within a few minutes of their scheduled time. To our raised on the less precise traditions of Heathrow and Gatwick, that was perhaps the most impressive tribute to American technology and know-how.

We also noticed that most of the planes we took were full,

or nearly full. That has consequences in a trip another great American marketing—but it does not mean that the airlines have filled the planes offering cheap fares attract non-business passengers. In doing so, however, have alienated some of the old business customers, the full (though not class) fare and find that are sitting next to cut-price passengers who have children, hog the stewardess's attention and eat the steak dinners, leaving businessmen with the seats. Ever alert to their needs, some airlines are introducing separate sections for full fare passengers where they will get first the food and drinks. It also be able to jump the queue at the airport.

In effect, therefore, there are now three classes: first class economy and economy. Readers who remember old days when British railways were once organized in a similar way, I say that it is a pity that it is not so now. It is not so now.

Times Profile

The Pope's moral watchdog

Shortly after his election, Pope John Paul told the cardinals who head the various departments of the Vatican curia that he was not quite sure what they all did, but "was enjoying looking them up in the pontifical year book. It was, perhaps, a mild and amusing way of cutting them down to size. The new Pope is the first for some time who has never worked in the curia, and this fact alone has been interpreted as a sign that the cardinals assembled in conclave were looking for something different in the new papacy.

Of all the departments of the

curia, that held in most fear, awe, it cautions respect throughout the Roman Catholic world the Sacred Congregation for the Doctrine of the Faith. It is the policeman of doctrinal orthodoxy and clerical morality. Its activities are almost entirely hidden from public inspection. It receives "dilatations" from all over the world, which are in effect secret denunciations against churchmen alleging some improper conduct or teaching. Often the allegation is of sexual misbehaviour. The Congregation investigates such denunciations, and where it can initiate disciplinary action.

Now at the ecumenical movement has reached the point where churchmen and lay people of all shades and colours are taking seriously the prospect of Christian reunion, the role of the Congregation for the Doctrine of the Faith at the very centre of the Roman Catholic Church's machinery of government must be open to examination and where necessary, criticism. If the Orthodox churches, the East or the Anglican churches of the West are serious about entering into communion more with the Roman papacy, they will have to look closely at the institutions which surround the papacy and its curia.

The public face of the Congregation is known almost entirely from its public utterances: there is no direct way to penetrate behind the facade to draw a more comprehensive

portrait. The things done by the staff of the Congregation are covered by an oath of secrecy, which reinforces the Vatican's traditional distaste for journalistic inquiry. This distaste has its reasons: the Italian press is not exactly neutral on religious matters, much of it is marked by an anti-clerical tone, and the international press in Rome writes mainly for its home constituency. To discover the private face of a body like the Sacred Congregation, there is no alternative but to collect a variety of images and opinions from a number of unofficial sources, some of whom are likely to be disgruntled. Each has to be weighed. Nevertheless, the accumulation of evidence does give grounds for serious concern.

The Sacred Congregation for the Doctrine of the Faith took its present name in 1965, when Pope Paul VI ordered a moderate revision of its statutes. This new constitution has never been published, which makes it impossible to tell whether the Congregation keeps to its own rules. It was formally known in English as the Holy Office, before that, as the Holy Office of the Inquisition. One of the chief reasons for the change of title was to drop the emotive word "inquisition" and all it stood for.

People with long-standing experience of living in proximity to the Congregation are unanimous in maintaining that the tradition of the

Inquisition has survived the adoption of a new name. This is not the tradition of old-fashioned, Protestant polemic, of torture and deceit, however, but a way of doing business that is peculiar to the Roman curia in general, but most marked in this department. It is a maze of invisible dynamics of circles and cliques of friendship. It is as true as ever that a successful career in the Vatican depends on the cultivation of friends higher up the ladder, for example by the selection of an important patron who may be a senior archbishop or a curial cardinal. Inevitably such people begin to owe each other good turns and do each other favours.

This style of internal communication in any bureaucracy must raise questions not only about the fairness of any internal promotions achieved through "connections" but more seriously about the justice and truth of decisions arrived at. In Rome one hears continuously of people under investigation by the Sacred Congregation who "got themselves off the book" by knowing someone who knew someone in the right place. In some cases so much detailed evidence is put forward, names, times and places, and by such credible informants, that it is almost impossible to dismiss it as malicious invention. The Sacred Congregation's

work can be considered under three headings. It acts as a listening post, clearing house, and investigating agency for complaints against individual clergy members. It monitors and comments on the work of other departments of the curia, and of other official church bodies whether international or regional, and it issues pronouncements on controversial doctrinal or moral issues of the day.

The two recent statements which received most world-wide attention were the declaration on sexual ethics, and the statement on the ordination of women. Both were issued with the authority of Pope Paul VI, and were generally regarded as hearing the full authority of the Holy See. A detailed examination of the genesis of both pronouncements leaves some questions unanswered. The declaration on sexual ethics, which maintained a conservative view of such things as masturbation and homosexuality, seemed at first to have the Pope's full support. Later it became known that passages of the declaration followed very closely the text of a book by a prominent theologian who happened to have been involved in drafting the document. It is said that Pope Paul was angry when he discovered this, as it weakened the authority of the document for it to be seen to be based on the opinion of one man—a known conservative, as it happened.

The statement on the ordination of women has also been questioned. The Sacred Congregation is supposed to assist the assistance of two independent theological bodies, the International Theological Commission and the Pontifical Biblical Commission, in deciding controversial issues, though opinion in the Roman Catholic theological community is that this arrangement does not work. In this case, the Biblical Commission was asked to produce Scriptural arguments against the ordination of women, for inclusion in the final document. It failed to do so, reporting that it could find no decisive objection on Scriptural grounds. The Sacred Congregation appears to have gone to considerable trouble to prevent publication of this verdict, although it did become known.

This episode has not increased the respect with which theologians regard the pronouncements of the Sacred Congregation and the affair indicated the way in which the Congregation is a law unto itself. The Secretariat for Christian Unity, which is most concerned about the ordination of women because of its effect on relations with the Anglican and Protestant Churches, was not allowed to put forward the case in favour of the ordination of women and it is unlikely that the case was considered on its merits. For only the Secretariat, in Rome, is in touch with the strong theological arguments which have

come in recent years from Anglican and other sources. The two expert commissions were introduced by Pope Paul VI in answer to the criticisms that the Sacred Congregation had on theological resources of its own, and could answer new questions only by referring to precedent. This blocked out the possibility of ideas evolving with the passage of time, and threatened the whole concept of new and creative theology containing fresh insights or fresh knowledge. It is not surprising that almost every answer the Congregation has given in recent years to doctrinal or moral problems, has been entirely predictable. It has, however, encouraged the development of what has become known as the "pastoral approach" to such vexed questions as homosexuality, whereby ancient moral norms are repeated on the one hand but confessor and counsellors are urged to be understanding and forgiving on the other. Without going into them, there are serious objections to this method: a number of eminent moral theologians are known to regard it as a psychologically dangerous way round the rigidity of traditional Catholic teaching on sex, by tacitly condoning certain conduct but leaving behind a continuing sense of guilt.

It is not clear to what extent the Pope has participated in the formation of the policies emerging from the Sacred Congregation. Popes have tended not to participate in detailed argument, and they do not attend or even attend the Congregation's regular meetings. It is a traditional assumption in the curia that it has the full weight of papal authority behind everything it does: but links in the chain of command are not so strong that this is beyond dispute.

It is part of the curial system that officers of the various secretariats and congregations overlap. Thus staff members who basically work in the Congregation for the Doctrine of the Faith also participate in the affairs of other sections, and this ensures that the Congregation has good intelligence on what is happening elsewhere. Given the system of invisible cliques and groups of friends, the Congregation has enormous power. It is formally entitled to be consulted about any matter which raises doctrinal issues, such as revision of the liturgy or the marriage of Catholics to non-Catholics.

This is generally regarded as a brake on reform, by members of other departments. But in the recent decision—perhaps when the system worked at its best—the Sacred Congregation forced the church's central matrimonial court, the Rota, to regard the marriage of a vasectomized man as valid, changing a long-standing principle that someone who had been voluntarily sterilized was not permitted to marry. This was a clarification of the church's doctrine on marriage in a liberal direction, and against the weight of legal opinion.

The most notorious aspect of the Sacred Congregation's work concerns its function as an investigating agency for moral delinquency or doctrinal deviation. Technically it can deal even with lay people, and once challenged the novelist Graham Greene. He is said to have ignored it, and the case was dropped; the Pope happened to be a particular admirer of his, anyway. But there are no possible sanctions against lay people, unless they happen to earn their living working for the church. It is the clergy, not excluding bishops, who interest the Sacred Congregation. An investigation usually starts with a "dilatation" which consists of a denunciation of a clergyman either for heresy or for immorality—often for both. It is said that the Sacred Congregation even acts on anonymous information: one official once defended this, when challenged privately, by saying "There is no smoke without fire." Many dilatations appear to come from the United States, and are employed as regular tactics by extreme right-wing Roman Catholic groups there who appear to feel that the church has been over-run by homosexual Marxists.

In many parts of the world, the Roman Catholic Church has authority over academic institutions. A typical victim of dilatation would be a professor of moral theology in such a body, which could well be a world-famous university run ultimately by trustees picked by the local Catholic hierarchy. A dilatation generally starts with a number of written complaints sent to Rome—perhaps supported by one or two newspaper clippings, and apparently spontaneously from local Roman Catholics acting only from the best of motives—often involving questions of homosexuality, abortion and support of left-wing causes.

Apparently the Sacred Congregation always reacts to such reports: a common method appears to be to send the person involved a questionnaire, in the strictest confidence, and ask him to inform his religious superiors—either the head of his religious order, or his local bishop. He may or may not be prevailed upon to visit Rome. Because of the "no smoke without fire" principle, the victim will have to work hard to defend his job and his career. If he is not cooperative, or gives the "wrong" answers, the Sacred Congregation will contact the local church authority and ask them to act. Such is the awe with which the Congregation is regarded, most of them will quietly resign and seek a post elsewhere, or refusing to renew his contract, or withholding promotion which might otherwise be open to him. Bishops who are reluctant to act may find

themselves under pressure any one time, a bishop will be looking for some mission or other from Rome on a quite unconnected note and he will know that no cooperation could be dependent on his own bishops never talk about matters, it is impossible know how realistic this situation might be. It is opinion of a number of placed people in Rome this is more or less how works.

There is an impression of arbitrariness about the Congregation's interventions, such as the "pastoral approach" but waits for dilatation. The Congregation no longer keeps the notorious "Index of prohibited books" which compiled by its predecessor, and only very public warnings that a particular writer is considered in error.

The Congregation is supervised by the Secretary of State by Paul, in a general way designed to increase coordination between V departments. Observers remarked that the has or two—in fact since bishop (now Cardinal) left the curia—the Sacred Congregation for the Doctrine of the Faith has been more and more self-confident. Many like to involve himself in curial departments, the Secretary of State Cardinal Villot, is said to remain aloof.

In defence of the Congregation it must be said that even the severest respect the integrity of a who run it, particular executive head, Art Jean Hamer, OP. The never been the slightest financial corruption. In are known in which Co tion officials have to follow the system, in an dual case, because it a to be manifestly unfair, a secretive set-up, impr and gross abuse of power run rampant: it do appear to do so, and absence of any other and balances this could be because of the high standards of the people involved. "They are all men", one outspoken said.

The issue is rather the Sacred Congregation Doctrine of the Faith's exist at all, or what various functions should be left to, which would function openly.

Sexual misconduct occur in the priestly doubtfully, and the chu to have some way courageing it.

Freedom of academic and of theological inquiry, the other, is not an obvious. There is no reason should not be left to, initiative of local bishops with, and made subject rules of natural justice cases where the overall the community is felt made corrective action kind. It may be that it has been reached with such cases exist, and the authorities, could dispense all forms of control. The public teaching the Congregation seems due for a searching recontrolling body, of cardinal and seven appointed by the Pope, representative, elderly conservative. It has relationship at all to the of Bishops which meets every two years to sit Vatican policy-making and has no obligation suit anyone in particular issuing its findings. If not speak with the Pope or with that of the wot college of bishops, it is all clear whether its w any theological authority Yet it can—and always claim to speak for the church, definitively, an our contradiction. Its sty close an issue before been really opened, as t of a general debate church.

Most seriously of all, an enormous polarity its work is regarded the masses, untutored lology or in the ways of the Sacred Congregation Doctrine of the Faith is possess a virtually i authority: "when Rom spoken, all debate Ammon the initial, the know it closely enough its all too human flar weaknesses, the Sacred gation for the Doctrine Faith has little credit pect. It can be outmaneuvered or manipulated "the right" "connections" it can virtually be ignor first indication of th Pope's view of it is li arise when he replac the Congregation's cardinal-pref Yugoslav Cardinal Sepe has apparently let it be that he wants to resign. A cardinal in the classical mould would presume to it as it has always been an outsider, given instr to reform it, would seek able to show that he f Pope's full personal b otherwise the system defeat him. The first necessary reform would to be the publication ovised constitution, includ Congregation's procedure as step towards br down the secrecy and conspiracy which surround But far more image measures will have to be in the longer run, not l ensure that the ecum movement does not foun this particular submerget Clifford Lo Religious Affairs Correspondent

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(Current market price multiplied by the number of shares in issue for the stock quoted)

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'Tactical errors' by Britain over European money system

David Blake
ington, Sept. 24

Britain's most important partners in the European monetary system still believe that a question of whether it will join.

It does not intend to make modifications to the 'grid' scheme which was worked out, and insist on the other members of the EC are determined to go

There is a strong feeling that if Britain's problems cause a number of tactical errors by the Government during the course of talks over recent

generally accepted that home-emerging within the unity is, for all practical purposes, a duplicate of the

Only the name has changed to protect the utilities of the French, do not wish to arouse

in the current system, groups Germany, the ix countries, and some

invasion countries. ries about whether the Kingdom could stay in

European currency union less on the difference in rates between it and

on countries than on the funal problems of its

ny as shown by law pro growth in recent

It is pointed out that in has a much higher in rate than Germany, but

managed to stay safely the snake for many years. some point is made in

se of France, whose rate has grown significantly in

ut years. There is, how worry about whether the rate increase in the in-

flation being pushed through French Government will

French Government will a new round of wage ds in the autumn

Europeans are not d that their scheme will

to problems as a result position from the United

Europeans are relieved that the Europeans have chosen to accept the parity grid system in preference to the British-backed alternative, generally known as the currency basket.

It is argued that the British proposal would have led to more intervention using dollars as opposed to European currencies. The United States wants to cut the amount of dollar intervention carried out under the new scheme.

Britain is believed by some Europeans to have misread the Americans on this aspect of the plan—one of a long list of mistakes it is felt to have made in dealing with the scheme.

The first mistake thought to have been made by the British was in "getting on board the train" at the Bremen meeting when the scheme was first suggested.

Even more serious is thought to be its attempt to tie in British support for the plan with the quite separate issue of whether there ought to be some move to transfer resources from the richer parts of the Community to poorer countries

such as Britain, which is called "concurrent studies". But it is felt that doing this was pursuing a slightly irrelevant side issue.

The next mistake is said to have been an over estimation by the Treasury of the importance of official intervention within Community countries to the proposal worked out by

Herr Helmut Schmidt, the German Chancellor, and President Giscard d'Estaing of France.

It is freely conceded that grave doubts about the desirability, workability and durability of the scheme.

Where the Treasury got things wrong, it is argued, is in underestimating the completeness of the political commitment of the French and German leaders, who were not prepared to see their plans grounded by a morass of technical detail.

A lack of recognition that the scheme was certain to be implemented by the French and German leaders, and that the Treasury was taking the wrong tone in negotiations.

The final mistake was the failure to foresee the probability that German views in favour of the parity grid scheme would prevail.

Quota allocations determine voting rights, and the Japanese are resentful that Britain has the second biggest quota in the IMF, even though its economic importance does not justify this. Britain would have liked an even bigger quota increase, but settled for the 50 per cent figure in order to avoid opening the question of allocation

quotas.

The interim committee is also thought to have agreed in principle to hand out an extra 4,000m SDRs a year for three years, which should boost world liquidity by about 1 per cent.

The increase in special drawing rights may be accompanied by an increase in the interest rate paid on them, though no confirmation of this is available.

The date approved a United

States contribution to the International Development Association of 1,300m. This is \$200m below the Carter Administration request, and the sum is likely to be cut further in a conference of congressional leaders in a few days.

The Senate cut 900m off the Administration's \$3,500m request for contributions to all international financial institutions.

The "Group of 24" finance ministers called for swift action by all nations to increase sharply the capital of the World Bank and the resources of the International Development Association.



Mr Peter Bowring, head of the financial group C. T. Bowring.

Bowring (Insurance) in US link

By Andrew Goodrick-Clarke
Financial Editor

London's largest insurance broker, S. T. Bowring (Insurance) Holdings, is to join forces with its American counterpart, Marsh & McLennan. A special meeting of the Committee of Lloyd's on Friday agreed to plans for the two to combine all their insurance interests.

But this will be a contractual rather than a financial merger and will "not involve any transaction in the stock of either of the companies or their subsidiaries".

Bowring (Insurance) is the largest component of the financial group C. T. Bowring, headed by Mr Peter Bowring, which earned profits of £33m last year, nearly 70 per cent of which came from insurance underwriting and broking.

Marsh & McLennan's post-tax earnings last year were \$56.1m, most of it from insurance-related activities.

March & McLennan holds minority interests in some subsidiaries of Midland Bank's insurance broking business, Bland Payne. Recently it attempted to buy another Lloyd's broker, Wigham Poland, which is controlled by Sir James Goldsmith's financial empire.

The Wigham Poland deal and an attempt by Frank B. Hall, another American broker, to take over a Lloyd's broker, Godwin, a Lloyd's broker, were blocked by a controversial Lloyd's decision not to allow any outside interests to control more than 20 per cent of the equity of a Lloyd's broker.

Subsequently, Hall was able to return with a scheme which enabled him to take a substantial stake in Leslie & Godwin, but the Bowring, Marsh & McLennan arrangement will involve no open-market financial transaction, only long-term contractual agreements between the two to pool their resources from insurance and presumably come to terms on how best they can serve various international markets.

Las Vegas Lloyd's said: "The chairman of Lloyd's has on a number of occasions in recent months said that if the committee is to cover the exercise of the self-regulatory powers essential in the continued efficiency of the market it is necessary that the control of firms operating in the Lloyd's market should rest firmly in the hands of people with long experience in that market."

This view, strongly supported by the Lloyd's community, is not in conflict with the international nature of Lloyd's business. It does mean, however, the committee has a continuing responsibility to sustain the rules governing the operation of Lloyd's brokers and the entry of new firms.

"Lloyd's committee welcome the publicly declared intention of Bowring and Marsh & McLennan and if the combination plans are completed these requirements will be met."

The two companies have been talking positively about the arrangement since June, though they have long-standing links normally through Marsh & McLennan with the big reinsurance business Quyn Carpenter.

Mr Ivor Bixley, chairman of C. T. Bowring (Insurance) said last night that it could be some months before final details of the combination with Marsh & McLennan could be put before shareholders.

Report expresses concern at Secretary of State's power to appoint Hearings proposed for state chiefs

By Nicholas Hirst

An all-party parliamentary report is expected to recommend this week that the appointment of the chairman of the boards of nationalized industries should be scrutinized by a select committee of the House of Commons.

Such a move would bring about an important dilution of the powers of Government ministers, and make appointments, and would involve American-style hearings similar to the investigation of prospective ambassadors by the United States Congress.

The suggestion will be made in the month report of the Select Committee of nationalized industries which looked into a pre-legislative hearing of a Bill to reorganize the electricity industry.

The Bill was withdrawn because of Liberal opposition and was subsequently published as an intention to legislate by Mr Anthony Wedgwood Benn, Secretary of State for Energy.

His proposals that there should be a unified electricity authority, bringing together the Electricity Council and the Central Electricity Generating Board—with subsidiary area boards which would retain a good measure of autonomy, were generally welcomed.

The industry, however, was concerned that the Secretary of State wished to retain authority to appoint area board members. This was seen as likely to create divided loyalties and interfere with the authority's structure.

The Nationalized Industries Select Committee took the initiative of holding pre-legislative hearings on the Bill. It was during discussions of the minister's authority in appointing area board members that the suggestion of scrutiny of prospective board members arose.

Mr Benn explained that a disruptive relationship had grown up between ministers and nationalized industries' boards because of the very

limited powers of ministers to interfere in the boards' affairs. Successive ministers had indulged in all sorts of backstairs manoeuvres which he deplored, Mr Benn said. He wanted to keep relations between Parliament and the industries as open as possible.

"I would be very happy to see nationalized industry appointments coming before a select committee, because I have no desire to appoint people," he said. "What I am keen on is the key decisions and appointments be kept in the public domain."

The point was then taken up by Mr Mike Thomas, a Newcastle Labour MP, who asked whether Mr Benn could say which legislation would need to be amended to allow appointments of area board members to be subject to committee.

"I for my part would be perfectly happy if it was put before the full committee on nationalized industries to have the opportunity of discussing with a potential candidate for

appointment, his suitability in the same way as the United States Congress has to confirm ambassadors," Mr Benn replied.

He did not know whether Cabinet would agree, however, and he was not saying he would advocate it. But it is believed that the committee will recommend such a procedure for the appointment of all nationalized industry chairmen.

It is also clear from the minutes of the hearings that the committee is broadly in favour of a reorganization of the electricity industry on the lines proposed in the Bill. However it also shows opinion is greatly against allowing the Secretary of State to retain the power of appointing the area boards, which would cease to be statutory authorities.

Nine out of twelve of the statutory area bodies gave evidence to the committee that they did not wish the minister to retain this power.

Toolmakers await call on pay offer

By Our Industrial Staff

Leaders of the 33 toolmakers on unofficial strike at British Leyland's SU Fuel Systems, Birmingham, may meet a group of southern counties-based businessmen in Luton tonight in an attempt to end the stoppage.

Mr George Regan, the toolmakers' leader, said yesterday that he had received a telephone call on Thursday evening from a man claiming to represent the businessmen.

A tentative arrangement had been made to meet today, but the caller, who did not identify himself, said that he would call back within 48 hours to confirm the meeting. He had not done so yet.

Although the caller did not disclose his identity during the two-minute call, Mr Regan is convinced it was not a hoax. The assumption must be that the unidentified caller was speaking on behalf of the consortium of about a dozen businessmen which has held the reception in Luton was not the result of combined consultation, and that following our criticism of the arrangements it was merely confirmed by the businessmen.

"We recognize the need to foster goodwill with our major customers, but the importance of the tenth anniversary of National Giro is that it marks a major achievement by its staff (95 per cent of whom are employed at Bootle) and the success of the bold political

Giro Bank workers to boycott celebrations

By Christopher Thomas
Labour Reporter

Union officials representing 4,000 workers at the National Giro Bank Centre, Bootle, Merseyside, are planning to boycott celebrations being held tomorrow in London to mark Giro Bank's tenth anniversary.

The National Giro Bank Council of Post Office Unions is protesting at what is regarded as a drift of emphasis away from the Bootle centre to the small London office, which employs 75 people. It says all anniversary celebrations should be held in Bootle.

The council comprises the five main unions representing Post Office employees. A joint letter to Sir William Barlow, the Post Office chairman, said senior officers of all the unions would be advised not to stand at an important gathering at a time when giro is growing fast and there is talk of the possibility of establishing a second Giro Bank centre.

They said yesterday that the drift of emphasis from Bootle to London meant that management was out of touch with its staff, and that the celebration was a "showpiece" event.

Four out of five Giro Bank directors worked in London, including Mr Samuel Wainwright, the managing director, they said.

Standing with since Sir Harold Wilson opened the national centre in Bootle in October, 1968, Amalgam's customers are big local authorities and most major retail chains, as well as 500,000 personal account holders.

Giro Bank contributed £50m last year to the operation of post office counters, and its own profits rose steadily, reaching nearly £3m in 1977-78. The unions are making it clear that Giro Bank is extended, this should be in

decision to choose Merseyside as its location.

"National Giro was, after all, established in Bootle to bring employment and commercial activity to Merseyside. Unless that policy has been officially reversed, the growing emphasis on Giro Bank's London-based activities is not justified."

Such a change in policy would be vigorously opposed by use because it is not in the interests of our membership, or of Merseyside."

The unions regard their stand as an important gesture at a time when giro is growing fast and there is talk of the possibility of establishing a second Giro Bank centre.

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CBI attacks unions over pay claims

By Our Industrial Staff

Sir John Mettven, director general of the Confederation of British Industry, yesterday hit out at unions opposing the Government's 5 per cent pay guidelines.

"The unions cannot have it both ways," he said. "They would like to support the Government, but cannot and will not bring their members to do so on this vital issue."

He said the high levels of pay claims indicated that many employers would have the greatest difficulty in settling near 5 per cent without confrontation.

Sir John said the unions were virtually seeking rises twice over—"substantial pay increases and a cut in working hours."

It was about time they recognized that shorter hours would mean fewer jobs, because our industrial costs will go up and we will once again price ourselves out of world markets.

"We know people's wages have to rise in order to meet rising costs, but unless the rise is in real terms the exercise is self-defeating."

"If the strong unions hold us up to ransom at the cost of the weaker and the non-unionized this winter it will be impossible to hold inflation down."

The unions were opposing increasing productivity, which led to more wealth and therefore new investment and new jobs.

The result was that there was little time left for training young workers.

"It is extremely difficult, therefore, to provide for the required number of apprentices needed to provide the draughtsmen of the future," he said.

In short, this can only result in a coming even more severe."

The construction unions, while recognizing the apprentice problem, still seemed preoccupied with talk about alleged unfairness in the industry while ignoring the factual shortage of good men, said Mr Stradling.

The BIM manifesto set out the key economic, industrial and social policies which managers would like to see implemented in the United Kingdom to provide a more suitable environment for them to carry out their day-to-day work in industry.

The proposed European manifesto will attempt to define similar policies on Europe-wide basis which will describe specific steps which the European Economic Community might adopt to help management achieve improved performance and prosperity.

Danish ham may cause heartburn at Gatt talks

Mr Robert Strauss, the American special trade representative and sharpest political operator in President Carter's Cabinet, faces a major challenge to prevent the outbreak of a transatlantic ham and cheese war.

On January 3 American congressional authority will wave countervailing tariffs on numerous imports will expire. It is probable that United States tariffs will come into force on Danish canned ham, Danish butter biscuits and EEC dairy products. The maximum level of these tariffs would be about \$50m (about £25.5m) a year with a more probable level of less than half this amount.

Further there is a chance that the tariffs would be in force for only a short time, perhaps only a few weeks. Despite the relatively minor importance of these tariffs in world trade there is every indication that the Europeans are determined to make them into a major issue, which could gravely damage the General Agreement on Tariffs and Trade multilateral negotiations.

Mr Edmund Dell, the Secretary of State for Trade, suggested last week that the possibility of American tariffs being imposed on EEC products (really only ham and cheese) was a "totally unnecessary impediment to progress" in the Gatt negotiations and represented "a weight hanging over the whole negotiations."

This is only the case because Mr Dell and his EEC colleagues have decided to attach so much significance to the matter. Indeed this reaction is raising some suspicions in Washington that the Europeans are really now looking for any excuse to frustrate and delay the Gatt summit. At the Bonn summit it was decided that these negotiations should be settled by December 15.

Mr Strauss discovered in a meeting with key Congressmen last week that there was little chance of Congress accepting his request to continue waiving United States duties for a further six months. Congressmen bogged down with energy and tax legislation and facing tough election campaigns, have more than enough on their plates to worry greatly about Danish canned hams.

If the Europeans were keen to settle the Gatt talks, they could simply ignore this issue and rely on Mr Strauss to convince the new session of Congress to deal with this matter swiftly, as it probably will.

By making a song and dance about it and saying a trade war may erupt because of tariffs on ham and cheese, the Europeans could ensure that the Gatt negotiations are not concluded before next spring.

Should this happen, Mr Strauss will have to make a tough task in selling the full Gatt packet of measures to Congress.

The earlier he can present these as the better are the chances of them being approved quickly and easily. Mr Strauss sees the dangers and is pleading for EEC common sense.

What worries Americans is that the Europeans should place the full Gatt talks at risk because of an unclassified United States Department cable from Geneva notes, there is a real chance that the Gatt negotiations could end with "a more trade liberalization programme extending over the 1980".

Frank Vogl

Shell at odds with forecast on petrochemicals

New York, Sept. 24—Royal Dutch Shell disagrees with the forecast about the probable impact of new petrochemical complexes planned in the Middle East and other oil-exporting countries, *Petrochemical Intelligence Weekly* reports in its issue out tomorrow.

This is because it expects petrochemical development in those nations to turn out to be "rather modest".

The main deterrent is a lack of the necessary infrastructure and technical background, particularly the shortage of highly trained supervisory engineers, plant operators and skilled tradesmen, Mr E. G. Warner, Royal Dutch Shell's managing director, told a recent technological club meeting in London.

Shell itself has reached an advanced stage of a feasibility study for a major petrochemical complex in Saudi Arabia.

In Shell's view, the geographical distribution of world petrochemical production: 30 years hence is not likely to differ much from what it is now.—AP/Dow Jones.

On other pages

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Developing countries make strong demand for more aid contributions

Our US Economics
Correspondent

Washington, Sept. 24—Once ministers from developing countries made their case here on the eve of the annual meetings of the World Bank and the International Monetary Fund for sharp increases in aid contributions to industrial countries.

Their bitter criticism of the industrial countries has not been tempered by the vote of approval on Friday night in the United States Senate for a \$10m (about £4,694m) aid Bill.

The Senate Bill includes a \$2m appropriation for the "inter-ven" facility, which is to strengthen the lendable resources of the International Monetary Fund.

approved American contributions to international financial institutions, including the World Bank, totalling \$2,650m, for developing countries, which are represented by 11 ministers in the so-called

"Group of 24", criticized industrial countries this weekend for increasing protectionist trade policies, for failing to raise sharply aid flows in real terms and for strengthening the borrowing possibilities for developing countries in international capital markets.

The ministers of the "Group of 24" stressed in a communiqué issued here that the non-industrial developing countries would face a \$32,000m deficit this year and that there was a clear trend of deteriorating terms of trade for the developing countries.

It is clear that ministers from developing countries will be particularly critical this week of the three largest industrial countries—the United States, West Germany and Japan.

They take the view, with some justification, that these countries are now caring less and less about the welfare of the developing nations.

The Senate approved a United

States contribution to the International Development Association of 1,300m. This is \$200m below the Carter Administration request, and the sum is likely to be cut further in a conference of congressional leaders in a few days.

The Senate cut 900m off the Administration's \$3,500m request for contributions to all international financial institutions.

The "Group of 24" finance ministers called for swift action by all nations to increase sharply the capital of the World Bank and the resources of the International Development Association.

While these matters are of crucial importance to these countries, the ministers from most industrial countries seem little concerned with the matter.

Herr Hans Mattheofer, the West German Finance Minister, told a press conference that while Germany supported the World Bank, he had not yet really thought about the question of sharply raising the bank's capital.

German visit brings hope of investments

By Patricia Tisdall

British industry is not as poorly equipped or as strike-prone as a group of German industrialists had been led to believe from reports received in Europe.

The group of 70 businessmen, representing medium-sized German companies, went away from a five-day fact-finding mission at the weekend with more favourable attitudes to investment in Britain than they held when they arrived.

As yet no firm contracts have been negotiated as a result of the mission. But two companies, who did not want to be named but who are involved in textile-related products, are planning to start talks immediately to establish manufacturing centres in the North-west.

According to Mr Manfred A. Ten Brink, a member of the mission representing the Deutsch-Bank, lower productivity in Britain—estimated at about 80 per cent on an equivalent basis—was more than counterbalanced by lower wage and other employment costs.

Growth of bank lending slows in August quarter

By Patricia Tisdall

Manufacturing, the personal sector and agriculture took the greatest share of new bank lending in the three months to mid-August, according to the latest Bank of England analysis of bank advances.

In overall terms, including the increase in commercial bills held by the Bank of England, the increase in lending to United Kingdom residents grew rather less fast in the latest quarter than in the three

months to mid-May, at £13,700m (seasonally adjusted) compared with £15,500m.

The increases in sterling lending to manufacturing industry (plus £589m) and the personal sector (plus £401m) were both of the order of 8 per cent. Lending to agriculture rose by £205m or 13 per cent.

By contrast, lending to the service sectors rose by only 2 per cent, while lending to the financial sector fell by almost 4 per cent.

Jobless theory questioned

The disincentive to seek work under the present social security arrangements is no easily exaggerated, according to Professors A. B. Atkinson and John Flemming in the latest edition of the *Midland Bank Review*. But the authors suggest that the present system could be altered to improve the situation of the longer-term unemployed.

They argue that the most commonly cited example of the difference in family in-

come between employed and unemployed is unrepresentative of the types of people who are actually out of work. They also suggest that any financial advantage in being out of work has been diminishing over recent years—not increasing, as is popularly believed.

But they do suggest that some people, once unemployed may, under the present rules, have an incentive to delay seeking a new job.

Europe aims at manifesto for management

By Our Management
Correspondent

European management organizations have agreed to try to draw up a common manifesto in time for the European Assembly due to be held next June.

At a meeting in London last week chaired by Sir Derek Ezra, chairman of the British Institute of Management, the European bodies supported a proposal for a manifesto similar to that published by the BIM earlier this year.

The BIM manifesto set out the key economic, industrial and social policies which managers would like to see implemented in the United Kingdom to provide a more suitable environment for them to carry out their day-to-day work in industry.

The proposed European manifesto will attempt to define similar policies on Europe-wide basis which will describe specific steps which the European Economic Community might adopt to help management achieve improved performance and prosperity.

MANAGEMENT

Refurbishing an image at EMI

Tomorrow EMI, the music and electronics group, will be starting out on the long and difficult road to convince the medical world that its new range of brain and body scanners is the best available. It will be EMI's most forceful attempt since it pioneered this technique for medical diagnosis more than five years ago to recapture the ground it has been steadily losing to the competition that has been attracted to this growth sector of the medical electronics market like bees round a honeypot.

Together with recent announcements about the strengthening of its worldwide music interests and the big investment plans it has in mind in the United States film business, this is all beginning to look like a carefully-orchestrated campaign to rebuild the image of a group where earlier management efforts to reorientate the thrust of the business have looked like going astray, or at the very least are having a savage effect on short-term profitability which is proving difficult to justify despite all the longer term hopes.

A such it is all rather fortuitously timed a week before EMI's full-year figures are announced which, Sir John Read, the chairman, has already warned, are going to look pretty grisly. Heavy research and development spending on scanners, write-offs on the Australian television business and a setback on the records side have unhelpfully for EMI all come together. The only question is how bad the results will be.

If the first half results were anything to go by, I anticipate

that Sir John will want to throw in everything but the kitchen sink with these figures to get all the bad news out of the way in one fell swoop.

Stockmarket analysts have been steadily downgrading their estimates from £40m a few months ago to around £32-£33m though perhaps significantly the company's own brokers, Fielding Newson-Smith, are pitching in with a figure of £30m or less.

Whatever the outcome it will be a sharp setback on the £65m profits the year before and marks a dramatic reversal the fortunes of a group which three years ago appeared to be on top of the world.

New management under Sir John has shown itself capable of hitting the bullet in troublesome areas like the Voxson operation in Italy and the United States Marco Corporation. Deep surgery was carried out at Capitol, the United States record business in the early 1970s while in other trouble spots like the Elstree studios management came up with novel solutions to seemingly intractable problems.

On top of this EMI had just made an important breakthrough in scanner technology which promised a quantum leap in profits for the late 1970s through the 1980s. Not surprisingly the shares gained a glamour rating in 1975.

The fall from grace has if anything been more precipitous as it has emerged that the scanner is not proving quite the winner that some (perhaps over-optimistic) outsiders had expected it to be.

It started to look as though



Sir John Read: wants more than the music leg to stand on.

EMI was going to be like so many other British groups who, having done the donkey work in developing a new product, allowed others to come through on its coat tails and cream off the financial benefits.

Part of EMI's problems in scanners stemmed from the fact that much of the pioneering research was in computer software which was difficult to protect with patents. EMI has found it a legal nightmare to insulate its scanner against the likes of General Electric, Philips, Ohio Nuclear and a host of other competitors.

But the real hammer blow came when the United States health authorities cut back on

scanners, and since this was more than two-thirds of the total market EMI found the bottom had dropped out of the market overnight.

Despite these shock waves EMI has stuck to its long term management philosophy. In Sir John's words he still wants to develop a company that has more than the music leg to stand on which means developing the medical electronics, television and leisure sides to a position where the inevitable setback in any one of these divisions can be cushioned by the rest of the group.

This management philosophy is firmly rooted in EMI's history. After the war EMI consisted of a loosely-knit group of subsidiary companies which operated independently of each other with precious little regard to profits.

Sir Joseph Lockwood came in as chief executive in 1954 at the height of the group's difficulties with a short brief to instil an awareness of profits.

Part of this involved selling off its domestic appliance side and the radio and television interests as well as moving away from the defence electronics business which made it highly vulnerable in government policies.

The next stage in the development of EMI came in the late 1960s when the group used its cash flow from the profits of the Beatles to diversify in the entertainment business and the United Kingdom. The ABC cinema interests as well as the Blackpool Tower Company (which is incidentally

causing the group no end of headaches just now).

But it had also become clear that EMI had become too big a group to remain under patriarchal leadership of Sir Joseph and it was in 1969 that John Read became chief executive. He had joined EMI from Ford three years earlier and in his prime responsibility to produce a more cohesive structure to the group.

Under Read EMI went through another management metamorphosis as the group was progressively decentralised to return to the subsidiaries some of the power they had lost under Sir Joseph who had demanded that most decisions should be referred to him personally.

Today EMI's management philosophy is very much that individual divisional heads whether they are Basil Gienon on the records side or Lord Delfont on films should get on with their things they know best with the main constraint on their freedom of action a financial one.

At present most of the stress is therefore laid on financial controls which has been something of a breakthrough in the record and film business where money has tended to play second fiddle to the artistic demands of the medium.

Sir John Read has over-extended the rebalancing of a major international group in reduce its dependence on the consumer oriented record business would be any easy task. Three years on he probably did not expect it would be so difficult either.

Ronald Pullen

LETTERS TO THE EDITOR

Extending industrial legal aid

From Mr A. C. Taylor

Sir, It was good to read in the article by your Industrial Editor on September 20, that the Lord Chancellor is considering the exercise of his powers to give jurisdiction to the industrial tribunals to hear claims from employees under the ordinary common law for breaches of their contracts of employment. The split jurisdiction of the court and the industrial tribunal on contracts of employment has been an unsatisfactory feature of employment law for some time.

Such a change will, however, focus attention once more on

the unsatisfactory position whereby the employee cannot obtain legal aid for representation at the industrial tribunal. There is nothing more important to a man than his job and it is quite unjust that he should not have the benefit of skilled legal advice in proceedings before the industrial tribunal when his job is in question.

Unless a change is made as to the availability of legal aid, the effect of the exercise of the powers by the Lord Chancellor, which your Industrial Editor mentions, will be to transfer from the courts (where legal aid is available) to the industrial

tribunals (where it is the exercise of further rights which the employee, have against his employer will, therefore, be disavowed by not having legal aid exercise of those rights).

The remedy clearly extending legal aid to industrial tribunals and I trust this will be borne in mind by the Lord Chancellor if he the change which is being

Yours faithfully,

A. C. TAYLOR.

Samuel Phillips & Co,

86 Pilgrim Street,

Newcastle upon Tyne NE1

September 21.

Striking a balance in competition law

From Mr R. E. Burnett-Hall

Sir, In the letter from Mr G. M. Woods on EEC Competition Law (September 18), it will take more than the Council of Ministers to provide the greater certainty he looks for, since the complexities of which he complains derive from the nature of Article 85 of the Treaty of Rome, and the Council being a creature of the Treaty cannot by itself amend

it could of course revoke Regulation 17 of 1962 and Regulation 1963, so as to deprive the Commission of many of the powers which it now enjoys in giving effect to the competition provisions of the Rome Treaty. However, this would in no way alter the law itself which would become even more uncertain. By contrast with the United States, we would not for many years even have a substantial body of case-law to refer to in considering the legitimacy of the numerous facets of business affairs where competition law may bite.

For better or worse competition law is here to stay, and any system that is to achieve its object without being so draconian as to stifle all initiative must entail a balance between complexity and uncertainty. The United Kingdom system, which aims at certainty, is complex, intelligible to few but lawyers (itself a major defect), and is frequently uncertain in its application. The EEC system does not pretend to certainty but is based on a few fundamental principles that in themselves are perfectly simple to comprehend.

One of the basic objectives of the Rome Treaty is a common market involving trade across national frontiers without obstacles. The definition of what may be an obstacle and when it may be legitimated is defined in Article 85 in terms of its economic impact. To analyse what the economic impact may be requires a certain amount of experience, and it undoubtedly helps to be conversant with the lines of reasoning followed by the Commission and the European Court of Justice in competition cases considered by them. However, this approach is in no way beyond the ability of most lawyers and their clients, and concentration on the economic impact ensures that the competition law bites where anti-competitive practices have significant effects.

Further, if in any case important provisions are of uncertain validity, notification does not require major additional effort (at least in the absence of something to hide), and where the validity of less important provisions is in doubt there can always be fall-back clauses as a safety net. To date, penalties have been imposed only on those who have, it would seem, wilfully ignored EEC competition law, and in my view a business attempting reasonably to keep within its bounds need not be unduly worried about fines should it one day be held to have gone the wrong side of the line.

Finally, it should not be forgotten that for every businessman who is prejudiced by competition law in any particular case, there is very probably another businessman, let alone the general public, who is benefited by its application in that same case; the laws that a man may complain of one day he may well wish to pray in aid the next.

Yours faithfully,

R. E. BURNETT-HALL,

1 Aldwych,

London WC2R 9HF.

September 19.

Restoring health of small firm

From Sir David Clutterbuck

Sir, Is it not remarkable that in the last few years political parties appear to have been pre-occupied with the election of a new Government, these good intentions have been forgotten? But, in case the parties mean it this time, the Government has now turned to Government departments a comprehensive ("Small Firms—A Future for the Whirl") on the problems facing small firms. It is intended as a reference for use by the small winners of the election.

When the Bolton C reported in 1971 the high hopes that acted follow, they were not the BGA study shows made it certain that a decline in the small sector would continue. The report recommends a Government and financial institutions, including funds, which could without much administrative difficulty if the w there, and would certainly long way towards restoring health of the small firm.

Observing that 83,000 British employ less than 20 and that this sector is judged as the only real prospect of red employment, the BGA that its report, the p two years work, will duo attention. It obtained from this offi Yours faithfully,

DAVID CLUTTERBUCK
Administration Director
The Business Graduates Association Limited,
87, Jermyn Street, London
September 19.

How Europe's social security cake is divided up

Although the broad drift of legislation in Europe is towards the harmonization of social security legislation there will be for many years to come substantial differences in the practice of differing countries which any personnel or finance director of a multinational company will have to master in respect of the various countries in which his company operates.

At the moment the only sure thing this hapless individual can be certain of is that most countries in Western Europe spend about 20 per cent of their gross domestic product on social security benefits although the range of benefits and methods of assessing liabilities vary from country to country.

The job of anyone who has had to evaluate national social security systems and implement a corporate system of employee benefits to suit each country has been made easier in recent years by the appearance of what has become the standard reference book on the subject, *Employee Benefits in Europe*. The revised, third edition of this review of employee benefit practice in 16 countries is published today.

The book has also been substantially extended by concentrating in greater detail on the financial implications of state benefits (after all, deficits are forecast in Social Security budgets for West Germany and Italy in 1980). And author David Callum is at pains to point out that the colossal liabilities of state schemes are

ultimately always subject to political whim—usually to the cost of the taxpayer who has to pay for the politicians' promises.

Another improvement in this edition is in the country-by-country analysis where more information has been given, and given on a more consistent basis. (This is important for anyone trying to assess the overall merits and cost of different systems.)

It is perhaps regrettable that more tables giving international comparisons are not available, although as the author points out the serious student is likely only to be concerned with benefits in one or two countries and will need greater detail than can be supplied in a table.

The 16 countries covered in

the book are Austria, Belgium, Denmark, Finland, France, Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

After a general historical introduction, benefits in each country are covered under the following headings: summary of contributions, general conditions, pensions, disability benefits, survivors' benefits, industrial injuries, health insurance, unemployment benefits and others. Then supplementary private plans including pensions, death cover and other benefits are analysed. All the figures are up to date to April 30, 1978.

The main changes which have occurred since the second edition was published in November, 1976, have been the

big improvement—on a trans-frontier basis—in the lot of the working mother.

Maternity allowances increased family benefits and at the extreme, paternity leave (in Sweden) have been added to focal points of improvement in state benefits throughout Europe. Without despoiling the efforts of the Labour Government to improve family care and finance, it can now be seen that the administration's achievement is not something exceptional but part and parcel of an international thrust to give more care and attention to the family.

Employee Benefits in Europe 1978, By David Callum. Published by Callum & Co., and Employment Abroad. £35.

Margaret Stone

STATE RETIREMENT PENSIONS				
Country	Benefits under the basic system	Benefits under a supplementary system	Indication of benefit level	Post-retirement increases in pension
Austria	Earnings-related	Nil	High	Automatic each year in line with increases in national average earnings
Belgium	Earnings-related	Nil	Good	Automatic each quarter following changes in price and wage index, with additional flat-rate increases. Automatic each quarter following changes in price index.
Denmark	Flat-rate	Contribution-related	Modest	Automatic following 3% increase in price index for basic system, and both the price and wage indices for supplementary system
Finland	Flat-rate	Earnings-related	Good	Automatic following 3% increase in price index for basic system, and both the price and wage indices for supplementary system
France	Earnings-related up to modest ceiling	Contribution-related industry-wide	Good	Basic pensions reviewed each July 1 and January 1 in relation to wage index. Supplementary pensions reviewed each year
Germany	Earnings-related	Nil	Good	Automatic each year in line with national average earnings. Usually twice yearly
Ireland	Flat-rate	Nil	Low	Automatic each year
Italy	Earnings-related	Part-earnings contribution-related	High	Automatic following 2.5% rise in price index with additional wage-related increases
Luxembourg	Flat-rate	Nil	Modest	Automatic following 3% rise in wage index
Netherlands	Flat-rate	Earnings-related	Good	Automatic in line with wage and price indices
Norway	Earnings-related	Nil	High	Regular, following legislation
Portugal	Earnings-related	Nil	Good	Automatic following changes in wage and price indices
Spain	Flat-rate	Earnings-related	Good	Following increases in price index
Sweden	Flat-rate	Earnings-related	Modest	Automatic following increases in price index. From 1979, increased following changes in price and wage indices
Switzerland	Flat-rate	Earnings-related	Low	From April 1979 basic part increased in line with higher earnings/price index. Second tier in line with price index
United Kingdom	Flat-rate	Earnings-related	Low	

Personnel advisers in the front line

One of the fastest growing areas of management at the moment is industrial relations, training and other subjects related to personnel. So rapid is the rate of change that the best "company doctors" in the personnel field are themselves seeking advice about how to cope with new problems outside the conventional boundaries of a personnel department.

Charles Margerison, professor of management development at Cranfield School of Management and chairman of the Management and Organization Development Research Centre, attempts to provide some of the answers to how the personnel specialist can handle his newly expanded role in a new book published today.

A prime requirement is for the specialist to assess his own role. It may be necessary for him to establish himself as a coequal adviser rather than as a subordinate administrator in order to tackle his wider tasks effectively.

Yet, according to Margerison "Personnel and organization development advisers have a vital role to play in the front line of industrial, commercial and public organizational life. Our job is to facilitate improved working relationships between people in doing the work which brings them together."

Types of questions which the new style personnel advisers are asked to solve include "What can we do to make sure that staff develop the skills to participate in decision making?" or "How can I motivate my staff more effectively?"

In order to tackle such questions to which there are no simple answers, the personnel adviser may need to probe at all levels within the client organization. This in turn will make him right up against what Margerison describes as the "political life" of the organization.

One of the ways the adviser may be able to help is by influencing the "role" or "directional pressures" associated with the professional. Margerison advises starting with the pressures under which the client himself is working.

"Only by helping the client shift his own directional pressures," he says, "will he learn what to do."

Influencing Organizational Change by Charles Margerison. Published by the Institute of Personnel Management, Central House, Upper Woburn Place, London WC1H 0BX, and costs £5.25.

Patricia Tisdall

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£ 500,000	£ 500,000
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1,000,000	1,000,000
11,500,000	10,666,666
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The above table assumes that the Ordinary Stock of the Company is admitted to the Official List of The Stock Exchange and that the proposed capitalisation issue of Ordinary Stock Units of 50p each credited as fully paid is approved at the Extraordinary General Meeting of the Company on 27th September, 1978.

Application has today been made to the Council of The Stock Exchange for the Ordinary Stock Units presently in issue and to be issued pursuant to the proposed capitalisation issue to be admitted to the Official List.

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سكز لمن لامل

BY THE FINANCIAL EDITOR

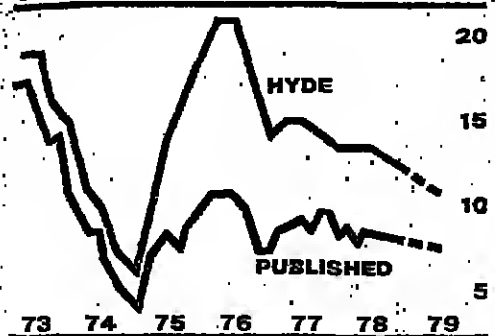
A reassessment of the p/e ratio

It is fashionable as it is every few years to write off the price-earnings ratio as an outmoded tool, like Mark Twain reports of death have been greatly exaggerated. The effects of inflation, the shortcomings of accounting and the increasing difficulties of the past few years in arriving at what usually constitutes a company's earnings have downgraded the usefulness of the p/e ratio.

No one puts as much store by this sweeping yardstick for determining whether a share is over or underpriced as they did during the days of the earnings cut in the 1960s and early 1970s. But it remains part of the diet of investment analysis for all its deficiencies. And to the extent that earnings ratios affect the capital market, p/e ratios help to determine the efficiency of the market as well.

The question now is whether the onset of a recession, which is getting on for half a century in the United Kingdom, is now, adopted, and the confusion surrounding real earnings under the Hyde guidelines makes a nonsense of the comparability of earnings which has always been the only real virtue of the p/e ratio.

ERATIOS



It is for example tempting now to bark at the last bull market when equities were selling on 18-20 times earnings, or even 1973 when inflation was last in single figures and p/e ratios were on average around 15, to argue that an equity market is grossly undervalued. Even if allowance is made for inflation, as brokers, Phillips & Swire try to do by using Hyde-adjusted earnings, p/e ratios only climb to around 11. If all deferred tax is excluded p/e ratios drop to around 6.5.

It may of course be simply that p/e ratios such as these are simply reflecting the fact that the period of unimpaired earnings growth—which could justify the IBM's selling on 30-plus times earnings—is over and that with inflation increasing uncertainty about the future, investors are reducing the payback period they require. Or again it may be that with Government stepping in between a company and the individual investor to curb dividend reward investors are reacting looking for more capital recompense in p/e ratios.

Whatever the relevance of these wide-spread, the fact is that with the present dubious definition of earnings, which with a changing treatment of such major items as depreciation, valuation of stocks or even statement of research and development or pension fund contributions in recent years, is doubtful if the comparability of earnings over time (let alone from one country to another) makes any sense at all.

It was of course no accident that p/e ratios first became entrenched in investment circles in the United States during the early 1930s when better disclosure laws made it so much simpler to determine asset values which up till then had together with dividend yields been used as the benchmark for share valuations. And its use in the United States subsequently was helped by the fact that accounting policies (until the switch from FIFO to LIFO accounting there in the early 1970s) were more or less standardized, certainly more so than in Europe for instance where persistent high inflation combined with FIFO accounting as reduced earnings calculations to a meaningless level. While in Japan, with their conservative accounting policies especially in relation to depreciation, the drawbacks of p/e ratios is amply underlined by the fact that when Japanese companies report on United States accounting policies to conform

to SEC requirements earnings have tended to come out upwards of two-fifths higher.

In the United Kingdom the writing first started to appear on the wall for p/e ratios with the introduction of imputation tax in 1972 which in effect made earnings in part dependent on the level of dividends and led to a proliferation of earnings per share depending on whether they were calculated net of the dividend or on the assumption of a nil payment.

Over the past year the switch from providing for corporation tax on a full 52 per cent basis over to what a company could reasonably be expected to pay (after stock appreciation relief and so on) has further confused the position, leading most analysts to continue calculating earnings on a fully-taxed basis. That is still an unsatisfactory solution as tax charges can vary widely depending on trading, but the snag with using published tax charges is that, often they are little more than the subjective judgment of individual managements, which make it impossible to use them as the basis for comparison between companies.

There are only two ways out of this impasse. Either progress could be made to a satisfactory definition of earnings—perhaps along the lines often suggested in Europe of distributable income, that is earnings after depreciation and all other provisions needed to maintain a company's production—or the p/e ratio could be ignored altogether in share valuation. In which case analysts would be forced to rely simply on dividend yields or more fundamental factors like return on capital employed. What is clear is that the investment community can no longer rely on the p/e ratio and is making little effort to find something to fill the void.

Institutional cash

How important for the market?

Meanwhile, the stock market bulls, some of them smelling slightly stale after the past fortnight, are at it again. Institutional cash has been accumulating steadily, they argue, and it cannot be very long before fund managers are forced to push rather more of it into equities or gilts—or, if they are unable to decide which horse to back, both.

There seems to be no reason to doubt the premise: many institutions have probably committed considerably less money to gilts and equities than they thought likely at the end of the last quarter. More open to question, however, is the conclusion. Now it may, of course, turn out that fund managers will decide at some point in the next few weeks that equities and/or gilts are indeed a good buy and that markets are set to go higher. But that is not quite the same as saying that weight of money will automatically force fund managers into the market, at least not over so short a period.

It may not be entirely fair to draw on the exceptional conditions of 1974 as an example, but the fact remains that it was a year when the long-term funds encountered no great difficulty in keeping some 45 per cent of their net cash intake in liquid form. There is, moreover, enough variation in cash ratios, whatever concept one chooses to use, and sufficient flexibility in money fund managers' attitudes towards cash, to make it dangerous to rely on heavy cash changes in institutional cash holdings to make predictions about the likely short-term behaviour of stock markets.

Certainly, there may often be a sufficient weight of money available at any given point to ensure that an upward movement, once started, will be considerably accentuated. But cash alone is highly unlikely to be the sole force that starts the market moving upwards in the first place.

At the moment it is true that there is an appreciable income penalty for institutional investors who choose to keep their money on the street rather than commit it to long gilts—respectively yields of around 9 and 12 per cent. But that is clearly not a decisive argument per se. Many fund managers are still weighing the odds between a fresh bull run and a winter of festering uncertainty when stock could well be available more cheaply.

In all the outpourings about the Bingham report into breaking oil sanctions against Rhodesia, one interesting aspect of the saga has received scant attention. That is the relationship between the group head office of a great international organization like Shell and its operating subsidiaries in foreign parts.

In giving evidence to Bingham, Shell expounded the company's doctrine. It is that the maximum amount of managerial authority should be delegated to local companies and that (the quotation is from a 1976 internal Shell document) "Companies should always endeavour to act commercially, operating within existing national laws in a socially responsible manner and avoid involvement in politics".

For a company operating in many countries, with different social and political systems and often (as in the case with oil and Rhodesia) with extremely diverse economic and foreign policies, it is by far the most rational doctrine in practice. It is summed up in the phrase, long since become a cliché, that the company aims to be "a good corporate citizen" in each of the countries where it operates. The doctrine aims to allow for the maximum amount of business and the minimum amount of political aggravation.

Like most doctrines, however, the reality in this case is

significantly different from the facade. Different multinational companies obviously follow different patterns. And some industries or businesses lend themselves to greater decentralization. In the main, however, it is the central powers that dominate within international business.

A moment's thought will prove that this must be the case, for the whole purpose and being of an international company is to try to provide by coordination and the transfer of managerial expertise of technology some extra element not available to a purely national company.

It is important, often for the morale of those who work in subsidiaries, or in the interests of good relations with local governments, trades unions and other interest groups, to place the maximum stress on the degree of local autonomy allowed to foreign subsidiaries. An American company once told me (and meant it quite sincerely) that it operated in the basis of leaving virtually every decision to its local managements.

A little exploration revealed that, while this was the doctrine, all decisions on big new investments, all control of research and development, all financial appropriations, budgeting and the setting of forecasts and the subsidiaries public reports were functions

Hugh Stephenson

reserved to the parent company.

It is hard to believe that the same is and was not true of an international oil company. For the major oil companies are in most ways the prototype of the modern multinational company. The essential characteristic of the oil industry is the integration on a world scale between production of crude, refining and marketing.

At the events of 1973 showed, when during the Yom Kippur War the oil companies were able to reroute supplies to overcome the "intended effects" of the Arab oil embargo on specific countries, the operational control of this integrated world-wide operation is highly centralized.

It is, of course, true that marketing is the end of the chain where the maximum degree of local autonomy and initiative is wanted. And the particular problems which Bingham was investigating concerned largely oil marketing contracts of the South African oil companies, which are subsidiaries of the Bingham report have contributed to a more mature understanding of the nature of this potential conflict, it will have performed some lasting service.

Telegrams: condition grave but not hopeless

The Post Office is making a determined effort to strengthen its long-suffering telegram service. Written off by the Government-appointed Post Office Review Committee last year as "in a serious, indeed hopeless condition", inland telegrams have for many years been regarded as an expensive anachronism even within Corporation circles.

Radical changes have taken place within the past six months. A new management structure has been set up. The Telecommunications Services Executive, headed by Mr Tony Finucane, formerly general manager of London Telecommunications' Region's Centre Area, has been set up to bring both inland and international telegram services under one administrative umbrella.

For the first time since anyone can remember, the service is being actively promoted to customers. A £100,000 nationwide advertising campaign started last month, designed to generate public interest. A variety of other, more selective campaigns, is being completed.

The decision to revitalize the telegram service during the Review Committee was one of the first to be taken by the newly structured Post Office board led by Sir William Barlow, chairman. It was taken mainly on social grounds as a service to the four in 10 homes which have no telephones in the United Kingdom. At the same time it was thought that there was considerable untapped commercial potential.

The aim now is to reduce, if not eliminate, losses by cutting building traffic and partly by increasing administrative efficiency.

One of the first discoveries made by Mr Finucane and his executive team when they started work was that the conventional view that telegrams were "barbarians of doom"—an estimated 70 per cent are now sent as greeting cards, birthday messages, etc.—was that contrary to the conventional view that they were "barbarians of doom" the majority of telegrams are an estimated 70 per cent are now sent as greeting cards, birthday messages, etc.

When the costs became unacceptably high this trade simply used the slower postal service or evaporated altogether.

Equally, given a fresh marketing thrust, the use of telegrams for greetings could be expanded considerably. Over the next year or so advertise-



Mr Tony Finucane: "make a go" with telegrams.

ments will reinforce the public that they can send telegrams for birthdays, Valentine's Day and a host of other special occasions as well as wedding greetings.

Even less well known is the "night letter" telegram service, which is cheaper than ordinary rate telegrams but which will enable a message received before 10.30 pm to be delivered with the first post the next day.

Mr Finucane sees this as complementing the first class post service (which typically takes a minimum of 16 hours between receipt and delivery) and of use to businessmen as well as to the general public.

Less quantifiable is the scope for expanding the traffic in "life and death" messages. It is estimated that less than 100,000 of the 3.2 million inland telegrams sent last year contained such summons between people.

But even here there is thought to be development potential for semi-urgent messages, such as arriving on a P&G variety. Most people, for example, do not know that they can send a telegram from a public box—provided they have sufficient small change to cover the cost.

It is also generally realized that provided it is received during office hours a telegram on average takes only 90 to 95 minutes for hand delivery, and 40 to 45 minutes if the recipient can be contacted by telephone.

The present advertising campaign is regarded only as a starting point. Short of any marketing support whatsoever the telegram service is not even listed separately in telephone directories, morale among customers and staff has dwindled to vanishing point when the Telegram Services Executive took over. Urgent and highly visible measures were needed just to restore confidence internally.

Given the very positive backing of the chairman who has personally pledged his full commitment, Mr Finucane says there is a new feeling within the Post Office that "we can make a go" with telegrams.

The task is formidable. Administratively the telegram service uneasily bridges the postal and telecommunications sides of the Post Office. Approximately 70 per cent of telegram messages are received by telephone rather than over the counter, but the majority are delivered by hand. There is also a traditional split between the inland and international telegram services.

A top priority for the Telegram Services Executive operating through a joint working party which meets for the first time today is to examine what needs to be done to get the best out of the inland and international services.

A recommendation as to whether or not full operational integration is the answer is expected before the end of the year.

Neither service is at present operating at anything like full capacity. The inland telegram service has gone down from 4.2 million in 1975-76 to only 3.2 million last year. Internationally originated telegrams which includes radio telegrams at the end of 1975 to around 135,000 at present, more reductions are inevitable. Over the past week unofficial short-term estimates have ranged between 10,000 and 20,000.

Lorraine is likely to experience a wave of plant closures, following the decision earlier this year to halt work on a new steel works at Nannes-maisons near Nancy, that was due to begin production in 1979.

But Lorraine is a relatively backward industrial area and steel an important support to the local economy. Restructuring the industry will inevitably necessitate a huge government effort to attract new jobs to the region.

EEC figures, which the French industry cannot dispute, show that crude steel production in 1977 totalled just over 22 million tonnes. At the end of that year amounted to 143,000. Production in Italy totalled 23,333 million tonnes, with the labour force at the end of the year adding up to only 36,689 persons.

Steelmaking in France is an uneasy mix of old and new. France's historic steel-making centre lies in Lorraine, in the east of the country. The industry grew up there on top of deposits of phosphorus, and that were first exploited to a significant extent in the first quarter of the nineteenth century, at the time of the German occupation of Alsace and Lorraine.

Although some modernization has taken place since the Second World War, the industry in Lorraine is comparatively isolated from its sources of raw materials and its markets. A traveller on the train from Luxembourg to Strasbourg passes not only modern plant but also rusting, unused works that still count as part of France's national productive capacity of around 35 million tonnes a year.

The new steel-making centres in France are on the coast. At Dunkirk in the north, Usinor has built up a modern eight million tonnes a year plant over the past 15 years that can compare with any modern steel works in Europe and comes close to the latest Japanese standards.

Fos looks like a white elephant being too small to cover costs and too large for the local market, but its closure would represent a tremendous loss of prestige.

In restructuring the industry, the French Government will probably look to Brussels for support.

Viscount Etienne Davignon, the EEC Commissioner for Industry, has said that the emphasis of his "anti-crisis" plan for the European steel industry will be on restructuring next year. Although he welcomed the French plan, he said his experts are still waiting for the details of its industrial and social implications.

Peter Norman

Can French steel be slimmed down?

Brussels' thinly-disguised nationalization of the main steel producers last week can only be the beginning of a radical restructuring of the industry, if it is ever to regain international competitiveness.

When M Jacques Fory, the President of the French Steel Industry Federation, described as a bold surgical operation, will probably look more like a mild anaesthetic if the industry's managers are given their head.

For the financial collapse of the French steel industry, which finally forced the government to step in, is only a symptom of the structural mess in which the industry finds itself.

Over the past three and a half years of crisis in the European steel industry, producers in France have been operating at roughly 60 per cent of capacity. The industry's productivity is one of the lowest in Europe. According to EEC figures, which are disputed by the French steelmakers' federation, it takes 11 man-hours to produce a tonne of steel in France, against 8.2 in Germany, and five in Japan.

In the south of France, at Fos near Marseilles, is another up-to-date plant with an annual productive capacity of 3.5 million tonnes. However, although technically advanced, it is probably too small to cover its fixed costs while its natural markets in northern Italy and Spain can be adequately served by indigenous production.

Now that the French government has decided to lift the crushing burden of 40,000 francs-worth of debt off the big French steel producers, the difficult task of restructuring and slimming must get under way.

It is already apparent that the often drastic cutbacks of the past year and a half have barely scratched the surface of the problem. Although the labour force in the French steel industry has fallen from 154,000 at the end of 1975 to around 135,000 at present, more reductions are inevitable. Over the past week unofficial short-term estimates have ranged between 10,000 and 20,000.

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Peter Norman

Business Diary in Europe: Bank hits in Italy

Five out of seven was, under the circumstances, not a bad score. The hits were the chairmanships of five important Italian banks, including Banca Nazionale del Lavoro, the country's biggest, while the two misses were those at Cassa di Risparmio delle Province Lombarde (Cariplo), claimed to be the largest savings bank in Europe, and of Banco di Sicilia, where the previous chairman's term of office expired officially in 1969.

It took five hours for the interministerial committee on credit, presided over by the treasury Minister, Signor Filippo Pandolfi, to approve the five nominations and decide to defer, probably till October, their attempts to agree on the other two.

The appointment to top posts in banks of public interest is a prerogative of the government, and, in recent years it has become a practice to subject them to harshest criticism by the political parties supporting the government.

Since the political parties have often been unable to reach agreement on successors, it has become common for chairmen to sit on beyond their official term of office for years.

The prospects now are that at Banco di Sicilia the Sicilian regional government will be persuaded to accept a renunciation, Professor Giustino Pagnini, instead of a Christian Democrat as it wanted.

A successor to Professor Giustino Pagnini, for many years chairman of Cariplo, is never far off, and is the subject of a competition between the Christian Democrat factions.

The appointments that were approved, and now go to parliament for its opinion, are Signor Neri Nesi, a socialist, at Banca Nazionale del Lavoro, Signor Luigi Cocchi, a Social Democrat, at Istituto San Paolo di Torino, Signor Remo Cacciafesta, Christian Democrat, at the Rome Savings Bank, and Signor Emanuele Savio, Christian Democrat, reconfirmed at the Turin Savings Bank. Signor Rodolfo Banfi, a sympathiser of the Communist Party, to the Mediocredito Centrale Medium Term Lending Institute.

The communists, who have spearheaded the campaign for socializing the banking system, have welcomed the new nominations, even if they seem still to follow the practice of a party share-out.

But, a party spokesman said, what counts is not a bank's party sympathies but the whole, the men chosen are, unlike in the past, to be professionally capable, he stated. "From such bankers we expect management in the service of the country."

For the first time since the tourist industry became important in Spain, the managers of all hotels, inns and boarding houses, are from January 1 to be free to set the rates without government interference. Four- and five-star hotels are already decontrolled.

"Don't call it a price rise," Ignazio Aguirre, Secretary of State for Tourism, told Businessmen. "It is a liberalization of prices. The distinction is important. I am sure some hotels

will not put their prices up, although of course others will." Aguirre said that one of the reasons for his decision to take the lid off hotel prices altogether was the encouraging result of liberalization of prices in the more luxurious hotels. He added that the decision is "consistent with the government's economic policy of removing controls on products".

The new rules specify that hotel managers must advise the tourist administration of their rates, and once those rates have been announced they cannot be changed for the next 12 months. The Minister argues that the change is beneficial to the client in many ways. For instance, hotels and boarding houses will no longer be allowed to charge customers the breakfast whether they take breakfast or not.

The "liberalization", Aguirre said, will have no effect on package tours, since rates contracted between bottlers and tour operators are always special rates.

The rate-liberalization order incorporates several provisions for the protection of the hotel guests. For example, high-season prices may not be over 25 per cent more than low-season prices, and the room rates must be stated clearly on a copy of the registry slip which the customer signs as he checks in. The copy is for the customer.

The hotelkeepers will be entitled to ask for a small non-refundable fee when a room is booked in advance.

Ludwig Poullain, the former chief executive of the West-Germanische Landesbank Gironzentrale, seems on the verge of a remarkable career comeback.



"Giscard d'Estaing wants three wise men to study the problems of an EEC of twelve nations. No mention, of course, of wise women."

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Both trade unions and bureau-

cracy were widely felt to be paralysing them—the view of 90 per cent of company directors. The banks were also thought to be hit too strongly by 76 per cent who felt that loans were too difficult to come by.

Another finding was that personnel of this type are not likely to stick with his top jobs. Seventy-three per cent were found to have changed jobs at least once and 18 per cent were working for their fourth employer. It is thus understandable that a relatively high proportion—47 per cent—felt that faithfulness should be rewarded by some form of bonus.

The poll also showed that delegation of responsibility figured high among those interviewed as essential for good business (83 per cent of management and 70 per cent of directors). But at the same time as many as 55 per cent of both grades felt there was a growing crisis of authority in business. Probably due to the fact that only 17 per cent thought they got on well with their colleagues.

West German paper manufacturers O. Dorries GmbH of Duren have just had a letter from an Indian customer delivered after 28 years. The letter, a postbox frozen in the Bossons Glacier near Chamouni, apparently the bag had been upon an Air India aeroplane that crashed on Mont Blanc in 1950 en route from Calcutta to Geneva.

A pretty disconsolate lot they seemed to be about their position in life. Forty nine per cent of the managers interviewed felt that they were losing their prestige and 47 per cent of the directors felt the same thing. As many as 39 per cent felt they were being simply used as a mere cog in a wheel.

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Both trade unions and bureau-

Louis NEWMARK Limited

The Chairman, Mr. Geoffrey Newmark, reports:

- For the first time we have achieved a profit in excess of £2 million and I should like to thank all employees for making this possible. The increase in profit is principally attributable to new product ranges in the electro-mechanical and electronic fields. There is every indication of continued growth by reason of their technical and cost effective superiority.
- In our mechanical engineering activity we have continued to make steady progress. However, we have not been able to take full advantage of our opportunities due to current restrictions which affect our ability to retain and augment personnel and though being gradually overcome, must still depend to a great extent upon Government policy. The quicker these handicaps are removed the more rapidly we can go ahead.
- Contained within our engineering activity there is a steady progress in the development and sale of special purpose automatic measuring and inspection machines.
- We have kept our plants fully modernised to benefit from the upturn in demand which we believe will arise from the worldwide sales efforts of our major customers whose equipments incorporate our many specialised products.
- We have met successfully the problems of the last twelve months and believe we are sufficiently flexible and forward looking to cope with those that we can at present anticipate for 1978-79. Our current sales are up to expectations and our finances are adequate to meet our plans for the foreseeable future.

Salient Figures:	1978 (£000's)	1977 (£000's)
Profit Turnover	1,690	1,358
Manufacturing	1,690	1,358
Merchandising	411	480
	2,101	1,838
Profit after Taxation	1,009	874
Ordinary Dividend per share	6.72p	6.02p

Copies of the full report can be obtained from the Secretary, 80, Gloucester Road, Croydon CR9 2LD

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Eynon Smart

Ronald Faux

Michael Prest

The

If you would like further details on this publication, please contact The Times Marketing Department on 01-837 1234, extension 7802

**Sir Campbell Fraser,
of Dunlop.**

TODAY.—Interims: Bramall, Channel Is Inv Tst, Fisons, Gen a Lav Tst, Jersey E Albert Martin Hdgs, Hdgs, Rio Estates 1 Tarmac. Finals: Adwe Chambers and Far Parker Knoll.

TOMORROW.—Inter-
ger Inv, Norman E
Group, Newman Inds, (C
Electronic Machine;
diamond Inv Tst, Suni
vice; Tomatin Distille
corn Inds and Watmos
Finals: AB Electror
Group, and Sizewell
Inv Tst.

WEDNESDAY.—Inter-
pipe Hldgs, Alva Inv
shire Metal Prods, Be-
Fosco Minsep, Ley
General Ass Soc, Mand
Thomson T Line
Tootal, C. and W. Wall
Finals: A. Beckman,
Hunt and Moscrop (Mi-
Startrite Eog Group, a
mortion Secured Grow

THURSDAY.—Interim
deen Const, APV, Ber
son and Nicholson, C
ring, Combined Engin
Dunlop Hldgs, James F
Co., J. Hewitt and S
ron), Alexander Hm
and W. Maclellan, W
son Supermarkers, Ow
RMC, Vickers, Wharm
Angel, and George Wir
Co. Finals: Amber D
Brown Bros Corp, Ch
Cons Plants, Footwear
Gallford Brindley, F
Gares, General and C
Tst, Gordon Gotch, HT
R. P. Martin and Sin
Hdcs.

FRIDAY.—Interims : bread Rothery and Co. Early and Marriott (V. Mumbro Life Ass. Hurst, Lytle Shipping. Textiles, Modern Eng. James Neill Hgds, North Canadian Inv and Royce. Also on Thursday Holdings announces figures and the market is confidently expecting £22m an adjusted figure of £ year.

Finally, Thursday we see interim figures from stock broker Alexander. The figures are expected to show profits growth in line with others in the market. This came from £12m.

Bryan App

Thomas Walker. In spite of the turn Thomas Walker edging from £1.7m to £1.72m a year to June 30, pre-tax slid from £214,000 to £198,000. With earnings per share from 1.78p to 1.42p, the gross dividend is unchanged at 1.2p gross. Walker makes smallwares for the clothing allied trades.

FINANCIAL NEWS AND MARKET REPORTS

Analysts are becoming increasingly cautious

Despite last week's fall shares had a good run, and many are growing acutely conscious of this, however, they are in some in-adjusted sense. The result is that recommendations are getting increasingly cautious.

Consider Manchester broker by Cooke, Lumsden who has just three busy analysts in Keith Kirkman (chemicals), John Davenport (textiles), Mr Peter Cooper (engineering). Northern Engineering, whose pre-tax profits are estimated to rise from £2.5m to £3m are said to be "a firm I and could be considered a 'strong buy'."

Brokers' views

A big share of the continental market, writes Mr R. A. Brand. Profits this year could still rise from £41.5m to £45.3m. The verdict: "we remain strong holders."

Mid-term figures from Rio Tinto-Zinc were a compromise between profits probably falling this year and a better long-term outlook. Verdict: "we consequently continue to recommend retention of holdings."

It is the same with Laporte Industries whose recent interim profits drop could have been worse. But the price earnings ratio is high compared with the sector and: "we recommend no more than a retention of holdings at this stage in the year."

There is also an oil industry monthly report from Williams

de Broe. Mr David Gray is another confirmed "holder" save for Burmah, which he says we should sell.

This prudent analyst points to Tricentrol posting a growing contribution from the Thistle field. "However, the dividend is unlikely to be raised above 2.5p until the Thistle field cash flow can be freed from debt repayments. This may restrain the share price but... we continue to recommend that the shares should be held", the analyst says.

His colleague at L. Messel, Mr David Oswald is bolder. It is a change to find someone saying: "The rating now looks fundamentally cheap and with confidence beginning to return to the oil share market we would add to holdings." Mr Oswald thinks that if Tricentrol was free to pay what it likes for 1979 the dividend could be as high as 7.7p.

Equally as bold, but in a different way, are analysts Mr Paul Aynsley and Mr Rodney Dennis of broker, Simon & Coates. In their retailing bulletin Number One they say forthrightly: "With the prospect of a marked slowdown in the rate of consumer expendi-

ture growth next year we would treat the customary buoyancy over the results season as an opportunity to reduce exposure to the sector."

Debeohams, they write, has gained ground in anticipation of good interim next month. These will give an opportunity to reduce holdings. In supermarkets Wm Morrison is said to be consolidating, but any weakness at half-time should be used for buying. Associated Dairies bid for Wades added a lower quality element to the group. UDS are attractive.

The writers argue that unlike Burtons the group tackled menswear problems early and it will benefit from this tackling for a further two or three years. Profits this year should top £30m. UDS has a profitable German associate and "highly profitable duty-free operations".

Mr M. Smith of the same broker has written about overseas traders. They should "perform relatively well against the market through the extent of any overperformance may not be great."

Peter Wainwright

BET's current-year results to show advance

For the second year running, there was an appreciable rise in British Electric Traction's pre-tax profits in the 12 months to March 31 last—from £55.31m to £67.04m pre-tax, in fact. In his annual statement, BET's chairman, Sir John Spencer Wills, reports that, in the current year to date, a number of group companies are showing useful increases in profits, others are reporting unchanged results "and there are one or two which are finding it hard to do as well as they did last year". Overall, the trend is to the right direction and it is the chairman's view that group results for the year as a whole will show an advance on last year.

On BET's oil exploration activities, the chairman reports that, following the drilling in the early part of 1978, by the Phillips Petroleum consortium (in which BET has a 5 per cent interest) of a further successful appraisal well on the Maureen Field in North Sea block 16/29a, a detailed plan for a commercial development was agreed. It is at present with the De-

partment of Energy for approval.

McKee ratify Davy Int agreement

The McKee Corporation, of America, has ratified the agreement between McKee and Davy International, under which Davy International will acquire all outstanding McKee shares for \$33 a share in cash, a total of \$110m.

As previously announced, the agreement contemplates that Davy will make a cash tender offer for any and all shares of McKee stock at \$33 a share promptly after expiration of the 20-day waiting period required under Delaware law.

Under the agreement, after the tender offer is completed, McKee would be merged with a wholly owned subsidiary of Davy International.

Bricomin in for rest of NY & Gartmore

Bricomin Investments, a wholly-owned subsidiary of British & Commonwealth Shipping, announces that it intends to make a cash offer for the

whole of the issued share capital of New York & Gartmore Investment Trust other than the 5.2 million share (65 per cent) already held by Bricomin.

The conditional offer price for each ordinary share will be 47p, dependent on the estimated asset value of each ordinary.

HF Bulgin on way to fresh records

A. F. Bulgin & Co reports pre-tax profit of £631,000 against £473,000 for the half-year end-July. Earnings a share were 1.52p (1.14p). The interim dividend is raised from 0.83p gross to 0.95p.

The chairman says that order levels continue to be good and morale throughout the group is high. Given a continued favourable economic climate, he is confident that the company will continue to break its own records.

British Land buys Kingsmere for £4m

British Land is acquiring Kingsmere Investment for £4.2m through the issue of 5.4m ordinary shares and

£2.35m, of which £1m is payable in cash on completion. The remainder will be paid after 12 months either through shares or in cash.

Kingsmere's net assets are £5m and consist of 174 freehold properties over 15 acres of London, known as the Langham estate. It is mainly a residential area, but includes the BBC and a sprinkling of minor commercial properties.

Newmark optimistic

Having met successfully the problems of the past 12 months, the chairman of Louis Newmark, Mr Geoffrey Newmark, believes that the group is sufficiently flexible and forward looking to cope with those anticipated for 1978-79.

Faced with difficulties which still surround industry, he is reluctant to forecast the financial outcome of the present year, but reports that current sales are up in expectation, and the board is satisfied that finances are adequate to meet plans for the foreseeable future.

Mr Newmark, whose revenue deficit fell from £4m to £1m last year, sold its 18.8 per cent stake in Property Investment & Finance earlier this year.

The British Electric Traction Company, Limited

Sir John Spencer Wills forecasts another record year

EXTRACTS FROM THE CHAIRMAN'S ANNUAL REVIEW

The following are extracts from the Review of the Chairman, Sir John Spencer Wills, which has been circulated with the Report and Accounts for the year ended 31st March 1978.

Accounts

The pre-tax profit for the year to 31st March 1978, at £67.0 million, was a new record, being an increase of 21.2 per cent on the previous year's profit of £55.3 million. The Group's performance can be summarised briefly in the following paragraphs.

Humphries Holdings and Murphy Bros., after their problems and difficulties of the past three years, both returned to profit. Re-Chem International incurred another loss but it was a much reduced one, and this subsidiary looks set to earn a profit in the current year. The improvements in each of these three companies reflect much hard work on the part of their managements. Good results were achieved by United Transport, Thames Television and the printing and publishing companies, Angus Press Holdings and Electrical Press.

Rediffusion made progress in its main business of the rental and sale of television sets in the United Kingdom but, regrettably, this progress was outweighed by continued heavy losses in Hong Kong and by problems at Rediffusion's telecommunications and systems simulation divisions.

B.E.T.'s other operating interests, taken together, increased their contribution to Group profit by some 10 per cent.

Printing and Publishing

The publishing companies continued their healthy growth. The pre-tax profits of Angus Press Holdings for its year ended 31st December 1977, at £1,299,000, exceeded those of 1976 by £255,000, and the pre-tax profits of Electrical Press for its year to 31st March 1978, of £432,000 showed an increase of £115,000. The purchase, in October 1977, of the Reading Newspaper Company and of a controlling interest in the Bracknell Newspaper Company has taken us into prosperous areas of Berkshire. We now have four flourishing weekly newspaper groups in London and surrounding counties.

The number of magazines and journals published by the whole group has increased from 47 to 53.

The prospects for the current year are good and further growth in the profits of the publishing group should be realised.

Canadian Motorways

The Canadian Government's anti-inflation measures further affected profit margins with the result that the sterling equivalent of Canadian Motorways' pre-tax profit for the year to 31st December 1977 amounted to only £1.29 million, compared with the £1.48 million of 1976.

During the year, two new terminals were constructed at Vancouver and Saskatoon to provide for future development, and the equivalent of some £3 million was spent on maintaining the quality of Canadian Motorways' fleet.

In the shorter term, the present gloomy business outlook in Canada and the severe weather conditions experienced in the first quarter of 1978, mean that we must expect this year's profits to be lower than those of 1977.

Reclamation and Disposal

Reclamation and Disposal made further progress during 1977. Under difficult trading conditions, a pre-tax profit of £127,000 was earned compared with the loss of £79,000 incurred in 1976. Biffa Holdings, the general industrial waste disposal subsidiary, had another satisfactory year and achieved a record profit of £273,000, before tax, as against £231,000 in the previous year. Reclamation and Disposal's other operating subsidiary, Re-Chem International, reduced the loss it incurred to £141,000, as compared with £295,000 in 1976. The Fawley toxic waste treatment centre is now fully operational and this plant, and the two existing centres at Pontypool and Roughmote, are steadily improving their productivity.

Humphries Holdings

The return to profit of Humphries Holdings was achieved in the year ended 31st March 1978, when the company earned a pre-tax profit of £260,000. In the previous year there was a loss of £36,000.

The largest contributor to the improvement in the group's results was again Humphries Film Laboratories where the previous year's very much reduced loss of £148,000 was turned into a profit of £230,000. On the other hand, there was a disappointing increase to £288,000 in the loss at Mole-Richardson (Stage & Studio Engineering), compared with the 1976/1977 loss of £148,000, due largely to work carried out on major contracts entered into on unsatisfactory terms in earlier years.

United Transport

United Transport's profits, before tax, for the year 1977, compared with the results for 1976, showed an increase of over £4 million to £19.88 million. The United Kingdom transport sector produced improved

results. The road tanker operations did well throughout 1977 but the heavy haulage sector continued to be affected by a decline in the level of activity at home. However, expansion overseas went a long way towards offsetting the fall in the heavy haulage sector's profits compared with the previous year. The principal manufacturing companies had an excellent year and increased their profits.

Of the increase of just over £4 million in the United Transport group's pre-tax profit for 1977, the overseas operations accounted for some £3 million.

The South African road passenger and freight operations reported substantial improvements despite economic conditions in that country. Since the end of the year under review, the Minister of Transport, after holding an enquiry, decided that the transport licences of one of United Transport's 75 per cent owned subsidiaries, African Bus Service Pretoria (Pty), should, in the interests of rationalisation, be transferred to another operator in the Pretoria area. Agreement was subsequently reached for the sale of the assets of African Bus Service Pretoria to the other operator for a cash sum equivalent to £8 million. The consent of the South African exchange control authorities has been obtained for United Transport to repatriate its share of the proceeds of this sale amounting to approximately £5.7 million after local taxes.

In Europe, particularly Belgium and Holland, there was a contraction in the level of demand and competitive pressures resulted in a narrowing of operating margins. Profits in Germany, however, improved and a further extension of facilities there is proposed.

The demand for air freight forwarding facilities continues to expand. Such is the growth in the requirements for cargo charter flights that United Transport has extended its interests to include that of an air freight charter, having recently purchased a Boeing 707-320C freight aircraft.

Trading in the current year has so far been on a par with the comparable period of 1977, but the loss of a half-year's share of profits from African Bus Service Pretoria, consequent upon the sale of that undertaking, could mean that the profits of the United Transport group for the whole of this year may not match those of 1977.

Advances Laundries

After more than doubling profits over the two preceding years, Advances Laundries did not manage a further increase in results in 1977. Instead it narrowly failed, by some £100,000, to match the record pre-tax profits of £3.45 million of 1976.

The chief reasons for the virtual standstill in profits were a fall in the volume of business, caused mainly by cancellations of contracts, particularly for workwear, owing to a number of customers having either closed down or cut back their businesses, and other cancellations due to price competition. With the recent increase in industrial activity, Advances Laundries is replacing much of this lost volume of business. Profits for 1978 as a whole are not expected to differ greatly from the £3.35 million earned in 1977.

Rediffusion Television

The pre-tax profits of Rediffusion Television for the year ended 29th July 1977, including the whole of the profits of Thames Television for its year to 30th June 1977, were £11.6 million, compared with £9.95 million for the previous twelve months. Thames Television's increase in profits was due to a considerable improvement in advertisement revenue, and a continuing improvement in the sale of its programmes overseas. The profits, after tax and minority interests, of Rediffusion Television, which has a 50 per cent interest in Thames Television, were £3.66 million compared with £3.05 million for the previous year.

Thames Television's revenue from advertisements and sales of programmes has continued to improve and there will be a further increase in the company's profits for its year ended 30th June 1978. This improvement will be reflected in

Rediffusion Television's accounts to 29th July 1978, which will be consolidated in B.E.T.'s Accounts for the current year.

Rediffusion Holdings

Compared with the pre-tax loss of £2.24 million incurred in the previous twelve months to 31st March 1977, Rediffusion Holdings incurred a loss of £100,000 in the year to 31st March 1978.

During the year under review, Rediffusion Holdings capitalised the loans which B.E.T. had made to it in connection with the building development programme of its subsidiary, Wembley Stadium.

Wembley Stadium reported a reduced loss for the year, compared with the previous year, as the result of, first, the receipt of a full twelve months' rent from the new office block and, secondly, the making interest-free, as from 1st September 1977, of finance provided by Rediffusion Holdings for Wembley Stadium's development programme.

During the year, Wembley Stadium was advised of the requirements of the Greater London Council, under the terms of the Safety of Sports Grounds Act 1975, to enable the company to maintain the maximum capacity of the Stadium. It is currently estimated that the total cost of these works will exceed £1.9 million. It is regrettable that the company should be confronted with this tremendous drain on its resources without any recourse to public funds or indeed financial assistance similar to that enjoyed by certain football clubs liable for expenditure under the Act.

Rediffusion Holdings' other main operating subsidiary, Walport Limited, which provides film and closed circuit television entertainment on ships and aircraft, had another successful year.

Boulton & Paul

I concluded my comments on Boulton & Paul last year with the remark that some improvement in profit might be possible even if there should be no improvement in demand. This prediction would have been correct but for unusual currency fluctuations affecting the value of timber stocks. In the event, the profit, before tax, for the year to 31st March 1978, was £5.24 million compared with the £3.78 million of the previous year.

All sections of the company's business are dependent upon the construction industry and the intense competition for the limited amount of work available has put profit margins under severe pressure.

Joinery orders at least have shown a welcome increase since the beginning of the present financial year. If that improvement in the flow of orders can be maintained, a better overall profit may be achieved this year in spite of difficult conditions which some other sections of Boulton & Paul's business may have to face.

Murphy Bros.

I am pleased to report that, for its year to 31st December 1977, Murphy Bros. made profits, before tax, of £583,000, which compares with a loss of £356,000 for the previous year.

In the principal activity of opencast mining, which is carried out under contract to the National Coal Board, the company's programme of work in the present year is satisfactory, but the market for coal is no longer expanding at the rate predicted, due mainly to a falling off in the United Kingdom in the demand for energy. In the medium to long term, however, the prospects for coal still look good.

The civil engineering subsidiary, Wrekin Construction, again made satisfactory profits in spite of the depressed state of the contracting industry in this country.

The new management of Murphy Bros. expect the company to show a further improvement in profits in the current year.

Plant Hire

The total pre-tax profits of the three plant hire subsidiaries amounted to £4.22 million, against the £4.13 million of the previous year.

Summary of Results



PROFIT BEFORE TAXATION
TAXATION
PROFIT AFTER TAXATION AND
MINORITY INTERESTS
DEFERRED ORDINARY DIVIDENDS

Year to 31st March

1978	1977
£67,042,000	£55,310,000
£34,631,000	£30,144,000
£24,827,000	£19,550,000
£8,427,000	£7,478,000

Earnings per 25p Deferred Ordinary Share 17-00p
Dividends per Deferred Ordinary Share 5-78p

13-40p
5-17p

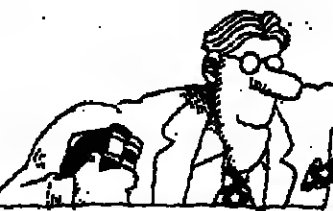
The Future

Last year saw, for the second year in succession, an appreciable increase in B.E.T.'s profit. In the present year to date, a number of our companies are showing useful increases in profits, others are reporting unchanged results and there are one or two which are finding it hard to do as well as they did last year.

Overall, the trend is in the right direction and it is my personal view that our Group results for the year as a whole will show an advance on the pre-tax profit of £67.0 million of last year.

The Annual General Meeting of The British Electric Traction Company, Limited will be held on 19th October 1978, at the Connaught Rooms, Great Queen Street, London, W.C.2.

Copies of the Report and Accounts, containing the Chairman's Review, can be obtained from The Secretary (TT), Stratton House, Piccadilly, London, W1X 6AS.



Social Scientists

Research visits to France and Federal Republic of Germany

der reciprocal agreements with the Centre National de la Recherche Scientifique (CNRS) and Deutsche Forschungsgemeinschaft (DFG) the Social Science Research Council is able to recommend a number of British candidates for research in France and Germany during 1978/79. The names are intended to give successful candidates opportunity both to engage in preliminary research and to develop contacts and the potential for future collaboration with French and German social scientists. The financial support provides for a subsistence and minor research expenses for a period of a few months but exceptionally up to one year.

Eligibility is limited to social scientists with a strong knowledge of French and German on the part of universities, polytechnics, institutes of higher education and independent research institutes. Applicants are expected to provide a detailed programme and timetable for their proposed work and to have a French or German partner in France and Germany.

For details and application forms may be obtained from David Kison, SSRC, 1 Temple Place, London W1P 8LJ. Telephone 01-535 5252, extension 2. See quote reference FP79/T or GP79/T. Closing date for completed applications is 10th October 1978.

University of Western Australia

DEPARTMENT OF RESTORATIVE DENTISTRY

There is a vacancy in the Department of Restorative Dentistry, University of Western Australia, Perth. The successful candidate will be responsible for the clinical and academic aspects of the department. The candidate should have a minimum of five years' experience in restorative dentistry and a strong academic background. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Dean of the Faculty of Dentistry, University of Western Australia, Perth 6009, by 30th September 1978.

University of London

MODERATOR IN RUSSIAN

At levels with effect from August 1, 1978. The successful candidate will be responsible for the coordination of the Russian language programme in the Faculty of Oriental Studies. The candidate should have a minimum of five years' experience in teaching Russian and a strong academic background. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Dean of the Faculty of Oriental Studies, University of London, London WC1E 6BT, by 30th September 1978.

University of London

LECTURERSHIP IN MARINE BIOLOGY

Applications are invited for a Lectureship in Marine Biology in the Department of Zoology, University of London. The successful candidate will be responsible for the teaching and research in marine biology. The candidate should have a minimum of five years' experience in marine biology and a strong academic background. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Dean of the Faculty of Zoology, University of London, London WC1E 6BT, by 30th September 1978.

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The Anglo World Language Centre, Cambridge

DEPUTY PRINCIPAL

30th October 1978, or as soon as possible. The post includes administration, teaching, and deputising for the Principal. The successful candidate will be responsible for the day-to-day running of the Centre. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Principal, Anglo World Language Centre, Cambridge CB2 3AS, by 30th September 1978.

THE BRITISH ACADEMY

EDITOR

Applications are invited for the post of Editor of the Dictionary of Medieval Latin from British Sources. The successful candidate will be responsible for the editing and publication of the dictionary. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Secretary, The British Academy, Burlington House, Piccadilly, London W1W 0BN, by 30th September 1978.

University of Warwick

INFORMATION OFFICER

Applications are invited for the post of Information Officer in the Department of Social Sciences, University of Warwick. The successful candidate will be responsible for the provision of information to the public. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Social Sciences, University of Warwick, Coventry CV4 7AL, by 30th September 1978.

University of Southampton

RESEARCH ASSISTANT IN AERONAUTICS

Applications are invited for the post of Research Assistant in Aeronautics in the Department of Aeronautics, University of Southampton. The successful candidate will be responsible for the research in aeronautics. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Aeronautics, University of Southampton, Southampton SO9 4NH, by 30th September 1978.

University of Durham

RESEARCH ASSISTANT IN AERONAUTICS

Applications are invited for the post of Research Assistant in Aeronautics in the Department of Aeronautics, University of Durham. The successful candidate will be responsible for the research in aeronautics. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Aeronautics, University of Durham, Durham DH1 1TA, by 30th September 1978.

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THE KING'S SCHOOL WORCESTER

HEADMASTER

The Governors of the King's School Worcester invite applications for the post of Headmaster, which will become vacant in September 1979. The King's School is a former Direct Grant School becoming fully independent, with about 200 boarders and 435 day-boys: the VI form numbers over 200, including 40 girls. There is also a Junior School of 90 boys.

Further details can be obtained from the Clerk to the Governors, S Edgar Street, Worcester WR1 2LR.

Australian National University

RESEARCH FELLOW

Applications are invited for the post of Research Fellow in the Department of Psychology, Australian National University. The successful candidate will be responsible for the research in psychology. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Psychology, Australian National University, Canberra ACT 2601, by 30th September 1978.

University of Birmingham

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Applications are invited for the post of Research Fellow in the Department of Psychology, University of Birmingham. The successful candidate will be responsible for the research in psychology. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Psychology, University of Birmingham, Birmingham B15 2TT, by 30th September 1978.

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UEA

CHAIR IN LAW AND SOCIETY

Applications are invited for the post of Chair in Law and Society in the School of Law, University of East Anglia. The successful candidate will be responsible for the research in law and society. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Law, University of East Anglia, Norwich NR4 7TJ, by 30th September 1978.

The London School of Economics and Imperial College

RESEARCH OFFICER OR RESEARCH FELLOW

Applications are invited for the post of Research Officer or Research Fellow in the Department of Economics, The London School of Economics and Imperial College. The successful candidate will be responsible for the research in economics. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Economics, The London School of Economics and Imperial College, London WC2A 2AE, by 30th September 1978.

University of Bristol

CHAIR OF ECONOMICS

Applications are invited for the post of Chair of Economics in the Department of Economics, University of Bristol. The successful candidate will be responsible for the research in economics. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Economics, University of Bristol, Bristol BS1 3NJ, by 30th September 1978.

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DOMESTIC AND CATERING SITUATIONS

EXPERIENCED NANNY

Required to look after a 3-year-old child and a 1-year-old child. The successful candidate will be responsible for the care and supervision of the children. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Domestic and Catering Situations, London WC1E 6BT, by 30th September 1978.

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40 mins. London and London Heathrow. The successful candidate will be responsible for the care and supervision of the household. The salary is \$24,000 per annum plus superannuation. Applications should be sent to the Director of Domestic and Catering Situations, London WC1E 6BT, by 30th September 1978.

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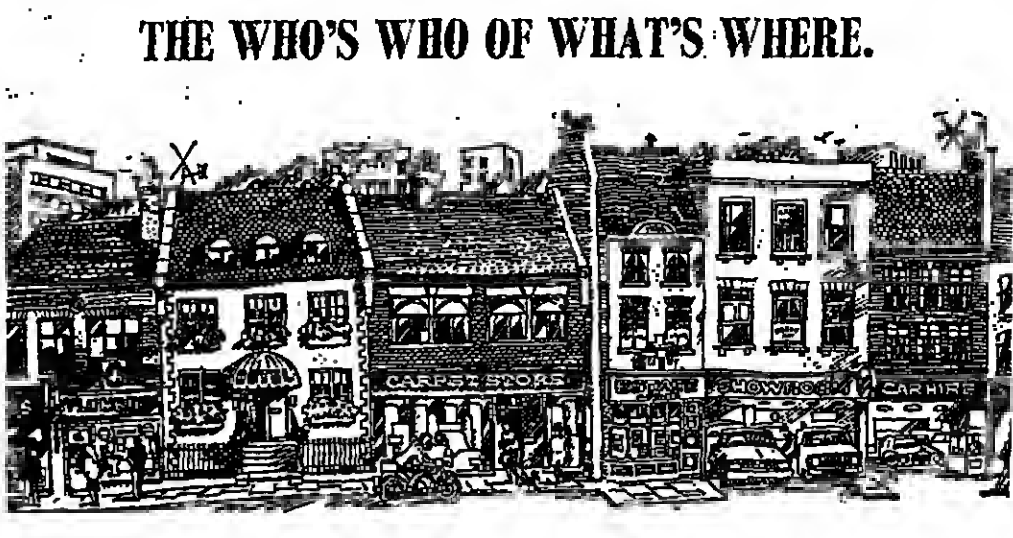
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THE WHO'S WHO OF WHAT'S WHERE.

Times Reader Service Directory (appearing every Tuesday) is a full page directory of names, addresses, telephone numbers of companies listed under the appropriate business category headings.

It gives our readers immediate access to all the information they need. And in London and the Home Counties they number more than 3 million. Our readers are busy professional people and need ready access to all sorts of business and personal services.

On Nov 7 The Who's Who of What's Where will be opened for new entries and at a cost of only £3.85 per week you can be seen in some of the best places every Tuesday.

For administrative reasons pre-payment is required and minimum booking period is 12 months, cancellation period is 56 days. Additional entries pro rata.

Booking Form

To reserve your entry, please complete this coupon and return to The Post Section, 4th Floor, The Times, PO Box 7, New Printing House Square, Gray's Inn Road, London, WC1X 8EZ (01-278 9231).

I would like my entry to appear in The Times Reader Service directory each week as follows:

(One line entry=66 characters including word spaces per line.)

Company Name

Address

Tel. No.

Which category do you wish to appear under?

I am enclosing a cheque for £200 for a weekly one-line entry for 12 months.

Signature

Edited by Peter Davalle

grandfather clocks; 1750 mhn.
painted faces. Any condition. Also
bracket, skeleton and wall clocks.
Any distance. — Sanders-on
Antiques, Market Hill, Coope-sh-
all, Essex. (Concesshall 61249).

ANNUAL FINANCIAL REVIEW

Employment fight lost

id Blake

rs since 1973 have he years of the tiou of Petroleum g Countries (Opec). act of the increase prices on inflation put has dominated omic progress of ustrial nations; at e time the bugs- pluses have exerted il effect on world markets. Those : coming to an end, the International y Fund meets in ton it is clear that tems which the in- world faces are no : caused primarily by : ease in oil prices, they come from the : difficulties in : rial countries, and e lack of any clear : on how to tackle : ded, there seems : lack of agreement : the problems are. : most striking charac- : of the world : is that high infla- : d rising unemploy- : exist and both seem- : ing, to be getting : worse. The inflation : about 8 per cent, but : lowly, with serious : ary problems : e apparent in the : States. : io Europe, the suc- : of 1977 and earlier : bringing down the : rate seem to have : of steam. In the : ere seemed to be a : which prevented the : rate. In the : d industrial coun- : ing much above 3 or : cent; now there : n he a barrier pre- : nt falling below 7 or : nt. : is no reason to : hat there is any- : agical about this in- : rate which means : can never be low- : but getting back to : lation rates of the : and 1960s is a far

more difficult job than once appeared. It is not simply a matter of getting the inflationary impact of oil prices over with, and then reverting to normal rates of increases in prices. The real price of oil has been falling this year, yet inflationary pressures are building up.

With the possible exception of the United States, these pressures cannot possibly be blamed on the traditional cause of too much demand chasing too little supply. There is substantial excess capacity everywhere, with some industries facing classic crisis conditions. Overall, the seven largest industrial nations (the United States, West Germany, Japan, France, Italy, Britain, and Canada) had about 10 per cent surplus capacity in the first half of this year. If the United States is excluded, the remaining six countries had 15 per cent surplus capacity.

Nothing happening in the world economy at present is tending to reduce the spare capacity. Growth in the past two years has been patchy and uneven, with an average rate of about 3 per cent. This compares with the 4 per cent needed just to maintain the level of capacity use and unemploy- ment at a stable level, and the 5 per cent or so which is the official target that Western countries adopted in 1976 as their strategy to move back towards full employment.

The abandonment of the idea that governments can organize a return to full employment in the foreseeable future is perhaps the most significant develop- ment to have emerged during 1978. Neither govern- ments nor international bodies now advocate trying to achieve a growth rate fast enough to bring unemploy- ment down: the opti- mists still hope that they can prevent it from going up by very much during 1979. At present there are about 17 million unemployed in the 24 industrial nations who make up the Organization for Economic Cooperation

and Development (OECD), and the number is likely to grow. When the recession of 1975 produced mass unemploy- ment for the first time since the war, it was seen as a temporary problem flow- ing from the oil crisis. The events of the first part of 1976 seemed to confirm that view, since output grew rapidly in response to gov- ernment action to stimulate demand. Many people still believe that if those policies had been pursued the im-

provement in output would have continued.

That point has to remain one of the great hypothet- ical questions of the world economy, for by the middle of 1976 there was a change of course, with some coun- tries such as West Germany choosing to put the fight against inflation first, and others such as Britain being forced to do so. Since then, the overall stance of govern- ments has, in terms of tradi- tional Keynesian economics, tended to be restrictive in

most countries, apart from the United States.

The switch in policy pro- duced strains in relations between those countries tradi- tionally regarded as "strong" and the weaker nations, differences which erupted at last year's fund meeting in Washington. The United States wanted to press on with a policy of expanding world demand through stimulatory action by the three most important "strong" countries—United States, Germany and Japan.

This "locomotive theory" was vigorously contested by both the Germans and the Japanese on two counts.

First, they disputed the very idea that there were some strong countries in the world which could afford to concentrate on expanding output at the expense of a slightly worse performance on inflation. Second, they argued that the constant pressure by other countries on them to do more to expand their economies was having the exact opposite effect to that desired. The constant talk of further action, they argued, was generating uncertainty and leading businessmen to postpone much-needed invest- ment.

The debate between the strong and the weak coun- tries has, for all practical purposes, come to an end, with the position adopted by the Germans and the Japanese winning out. At the Bonn economic summit in July, when it is true, promises by both coun- tries to give a little extra stimulus to their economies. But even on optimistic assessments of the likely result, growth in these countries is certainly not going to be a driving force for the rest of the world during 1979.

Indeed, the very idea that demand can pull the world out of recession seems to have been abandoned.

There can be no doubt that the weakness of the dollar, and the consequent weakness of the United States position in its deal- ings with other countries, has been a major cause of this change in thinking. In essence, the United States decided not to push the Germans to expand their economy, in return for the Germans agreeing not to complain too loudly about the decline in the value of the dollar. That unspoken agreement has not stopped the dollar's fall being one of the most discussed topics in the financial community over the past year, but it has at least prevented the discussions taking the form of a public row between governments.

Whether this absence of public disagreement has done any good is open to doubt. There is little sign that real confidence in the prospect of world recovery has grown, and equally little sign that within the indus- trial nations the disparities in payments performance are close to being resolved.

During 1978 the total surplus of the Opec countries is likely to be less than half of the combined surplus of the surplus nations. The United States deficit will be well over \$20,000m. New studies prepared by the

The Annual Financial Review is published to coincide with the opening of the joint meeting of the International Monetary Fund and the World Bank in Washington

OECD for the fund meeting may show that the payments disparities are not quite as was feared in the summer, but they remain large.

While those disparities remain there is little prospect of the countries which want to expand demand being able to do so, because of fears about the strains this will impose on their own balance of payments. And while countries faced with rising unemployment are unable to try to expand their economies, there can

be no doubt that the pres- sure to introduce protec- tionism to save jobs and help the payments balance will grow. The amount of trade affected by import restraints continues to rise, and indirect forms of pro- tection, such as special measures to help individual industries, are spreading rapidly.

In theory at least, the industrial nations are com- mitted to cutting back on these measures under a pro- gramme known as the pur-

suit of Positive Adjustment Policies, or PAP as it is known from its initials. In practice, the agreement to do this exists only on paper. Those countries which are large exporters want to see restraints to their sales removed; those countries whose industries are weak have no intention of making them weaker by opening them up to renewed competi- tion in a world where there is a shortage of markets, not of goods.

A new normality has been

created in the world economy, in which unemploy- ment in industrial coun- tries at levels never before experienced in the postwar era seems inevitable for years to come. Whether that normality can survive, or whether it will lead to a new spiral downwards, is something which we are likely to discover in the remaining years of this decade.

The author is Economics Correspondent, The Times.



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Trade

Sands run faster as experts struggle over international agreement

by Melvyn Westlake

Time is rapidly running out for the trade experts and government officials who for five years have been negotiating in Geneva on behalf of 100 nations in an attempt to establish new international trading rules.

Failure to hammer out an agreement this year could open the flood gates to the rising tide of trade protectionism that has accompanied the past four years of economic recession in most of the main industrialized nations.

The negotiators have a little more than three months to conclude the deal that has defied them since September, 1973, when the "Tokyo round" of world trade talks was formally launched in Japan under the auspices of the Geneva-based General Agreement on Tariffs and Trade (GATT). The deadline for agreement, July 15 this year, came and went with very little achieved.

But a real deadline is looming up. This is imposed by the United States Congress and the workings of the American legislative system. This gives the Geneva negotiators until the end of the year to come up with a deal, otherwise the Tokyo round is dead. Instead of further cuts in border taxes, like import tariffs, and a new set of codes and rules designed to govern international trade in the 1980s, the world will watch as the present system continues to disintegrate.

However, the threat posed to the international economy by creeping protectionism has provoked one positive response. In June when the "trade pledge" was signed again by the two dozen members of the Organisation for Economic Co-operation and Development (OECD) which groups together the world's most developed nations. This pledge, first signed in 1974 in the wake of the oil crisis, has been endorsed annually for five years. It binds OECD members not to restrict imports or unfairly promote their exports. The chances of it being signed in 1979 are slim.

This is because, if the world trade talks in Geneva are successful, the OECD pledge should become redundant. If they are unsuccessful, then many countries are likely to find themselves unable to resist domestic pressures for import controls, and the pledge would be worthless.

Even the existence of the pledge has not prevented

some countries resorting to restrictive trade practices over the past two or three years. According to the International Monetary Fund in Washington, which monitors changes in trade practices, the industrialized nations increased their use of protective measures during 1977 and early 1978.

Anti-dumping and countervailing duties were imposed on imports as a means of restricting the amount of foreign made goods entering the home markets of some industrialized nations. Quotas on imports were also used.

In a recent survey of such measures, the IMF singled out the quota limits imposed by the European Economic Community on textiles; by the United Kingdom on television sets and clothing; by the United States on steel and by Canada on textiles and shoes. The survey also referred to the growing number of countries which were delaying payment for imports, describing this as a "particularly disturbing feature" of the commercial scene. Towards the end of 1977 and early this year, Turkey, Sudan, Jamaica, Ghana and Guyana fell behind on their import payments, while the situation in Zambia and Zaire, already in arrears on their payments, became worse.

Calculations some months ago suggested that about 5 per cent of world trade was now covered by various restrictions affecting products worth \$30,000m. The proportion is certainly higher today. To what extent this has depressed world trading is unknown because the slump in production in Europe and Japan has also reduced the growth of the volume of trade.

But the increase in world trade this year is expected to be no higher than 5 per cent, and to 1979 the position is unlikely to improve. This means that the annual rate of growth in both total world trade and manufacturing trade between 1975 and 1979 will have been only about 4 per cent, compared with an annual growth rate of almost 10 per cent in the preceding five years.

The danger is that a widespread use of trade restrictions could further deflate the world economy and increase unemployment. This may depend on what other economic policies are being pursued at the same time. Indeed, some economists in Britain argue that import controls could help to increase output and employment if they are accompanied by expansionary, budgetary and monetary policies at home. Many governments, however, in the Western

world are reluctant to stimulate their economies for fear of pushing up the level of inflation.

In this case, "beggar-my-neighbour" trade protection measures can lead only to silent factories and lengthening queues. This will ultimately defeat the initial purpose of import controls, which is usually to prop up employment in ailing domestic industries that cannot compete with imported goods.

The problem is that the employment that is preserved by protective measures, against, for example, the developing countries, is offset by the loss of employment in industries that export to these countries. As the World Bank observed in a recent report, the size of the developing countries' import market is not widely recognized. The total exports of the industrialized countries amounted to about \$550,000m in 1975, and about a quarter of this was purchased by the developing countries. Exports from the industrialized nations to developing nations amounted to \$123,000m; the reverse flow was only \$26,000m.

Thus, limitations on imports from developing countries can be self-defeating because they put at risk much larger flows of exports

in the reverse direction. This is why there is so much anxiety lest the world trade talks in Geneva should fail. A successful deal there would mean that many unfair trade practices would be outlawed. If countries did need to impose controls, for example, they would be strictly supervised and monitored.

Moreover, they would have to be temporary, then phased out as quickly as possible. Yet even then it seems likely that the new trade rules and codes would be adhered to only if the industrialized nations were able to return to the high rates of economic growth achieved in the 1960s. Unless that happens unemployment, which already amounts to more than 17 million in the member countries of the OECD, will go on rising.

This will lead to demands for import protection even if it only ultimately exacerbates the problem. The interrelationship of the growth and protectionist issues were fully acknowledged by leaders of the industrialized world at the seven-power economic summit in Bonn. There they committed themselves both to trying to raise their countries' economic growth rates and to doing their best to secure a worthwhile agreement on a new trading system.

It was recognized in Bonn,

however, that the

cult trade issues at be tackled. Nor is these is the issue subsidies and the vailing duties the posed by importing on foreign goods alleged to be sub

There are consid ferences between E States and the E what kind of indus dies might be per under what cond imposition of cou duties is legitim Europeans have ir resorted to subst means of supportir development in domestic economic objectives. In agriculture, are even more in another area of agreement concern ditions surroundi of emergency " action when cou faced by a sudden imports. On top t there are delicate about how much and differential" gives to the devel tries. If the neg Geneva can settle problems by the year, they will be ground rules for far-reaching resu the international system since established in the

Third World

A boost for the poor in economic growth

Against large odds, the developing countries have weathered the economic recession that has plagued much of the industrialized world during the mid-1970s. In fact, by the end of 1977, the oil price increase and harsh trading conditions, the globe's poor southern nations, as a group, have adjusted more rapidly than expected to potentially deeply injurious economic events.

Indeed, collectively, they have achieved a more rapid economic growth than their rich northern neighbours in three of the past four years. While the latter countries found their expansion limited to an average 3 per cent in 1977, the non-oil exporting Third World nations raised their output of goods and services by an average 4.7 per cent.

But, if setbacks have been overcome with greater facility than seemed likely, it has not been without cost. Even a relatively small decline in the growth rates of developing countries disrupts the pace at which poverty is reduced. Govern

ment spending programmes, aimed at helping the poorest groups, have been curtailed, especially in the hard-pressed developing countries that have done less well than the average in the Third World.

At the same time, the prices of many commodities exported by the economically weak countries of the south have fallen, while world inflation has driven up the cost of capital imports necessary for their further development.

In spite of this, and the recession in international trade, the developing countries have progressively cut back the huge deficit on their overseas trade accounts, which burgeoned after the quintupling of the oil price. Their collective current account deficit in 1977 was down to \$22,100m, after having increased more than threefold between 1973 and 1975, from \$11,300m to \$37,300m.

However, all the signs suggest that this trend is now being reversed. According to forecasts made by the International Monetary Fund, the current account deficit of the non-oil exporting nations of the Third World will be back up to \$30,000m this year, and the prospect for 1979 is even worse. This need not be too serious if the deficit can be financed with cash from the industrialized nations.

The problem is getting the cash to pay for these resources. This may be possible this year. The World Bank estimated in its recent annual report that foreign aid and other capital flows from the rich nations might be adequate to finance a \$30,000m Third World deficit without visible strain. But if there is to be a continuing rapid growth in the level of imports, it is clear that the developing countries will have to step up their exports to pay for them.

It is here that dark clouds are beginning to gather ominously. The export performance of many developing countries is proving remarkably strong, but this very success is, to some extent, the cause of the problem. Steadfast competition from Third World nations in many industries has led to increasingly restrictive measures by the industrialized countries to protect domestic employment.

Last year the dollar value of world trade increased by about 13 per cent (5 per cent by volume), while the value of exports from the developing countries (excluding the wealthier oil exporters) rose by about 14 per cent. The

poorest Third World nations did particularly well, boosting their exports by 22 per cent, while the more advanced developing states did less well, increasing the value of the goods they sold abroad by 10 per cent.

The fairly consistent rise in their exports suggests, as the World Bank observes, that the competitiveness of the developing countries' traded products is not a transitory phenomenon but one that is likely to continue, barring the spread of trade barriers. If trade protectionism were held at bay, the prospect for further rapid economic growth in the developing countries as a whole appears to be quite good.

A new medium-term study (covering the period between now and 1985) undertaken by the World Bank has concluded that the more rapidly growing developing countries are likely to maintain the pace of their economic expansion, while even the slower-growing states can be expected to raise their rate of output.

However, economic growth is not enough on its own to deal with many of the social and economic difficulties that confront Third World countries. In particular, agricultural production remains barely ahead of the rise in population. In spite of the gains in farm productivity brought about by improved agricultural practices, food production is still largely hostage to the vagaries of the weather.

Food scarcity remains the most explosive of all the difficulties. In spite of the increase in cereals production since the food crisis of four years ago, and the recovery in the level of stocks, the problem of feeding the vast numbers of people in the poorest countries remains acute. The Food and Agriculture Organization estimates that world food production, which is dominated by the output of grains, ex

panded by about 3 per cent in 1975 and 1976, but by only 1.4 per cent in 1977.

Production in the developing countries themselves was up just 2 per cent last year. But this was largely the result of the 4 per cent increase registered in India. Middle Eastern and African food production did not rise at all from 1976 levels, and in Latin America there was a rise of only 1 per cent.

Thus food production per head has declined in all developing regions except for Asia, and the situation in Africa is particularly worrying. According to the FAO, the index of output per head in 1977 was some 10 per cent below the level of 1961-65. Some estimates suggest that by 1980 the food deficit of developing countries could rise to between 120 million and 145 million tons, or at least 80 million tons more than in 1975. This projected deficit is likely to be reduced only about 10 per cent

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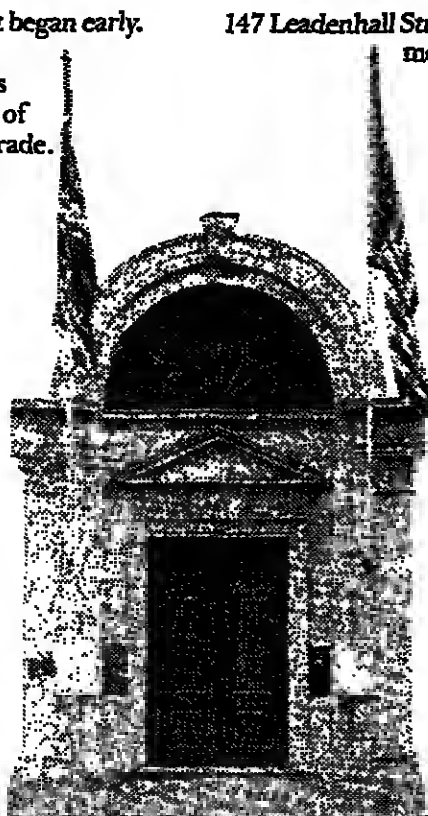
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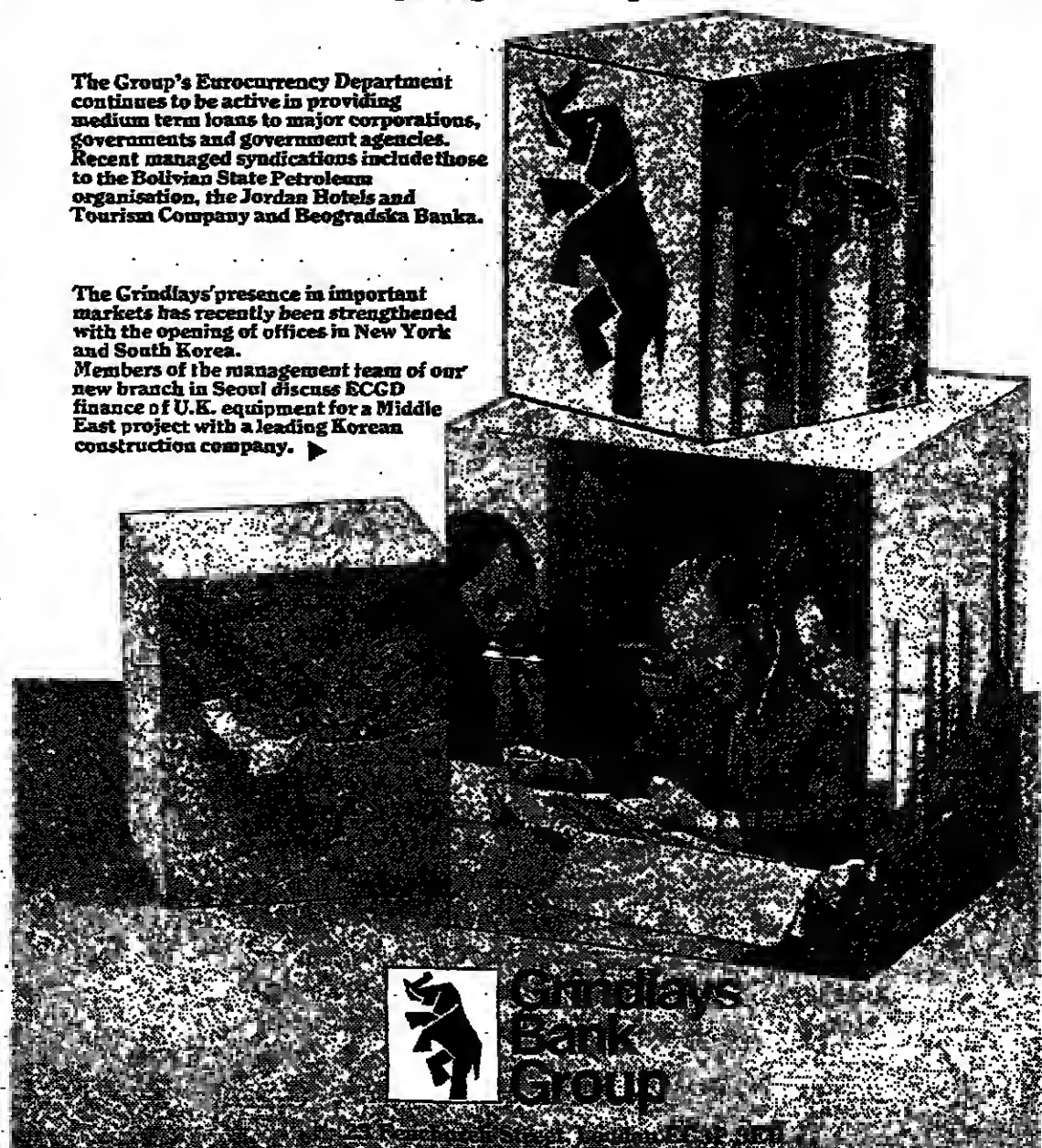
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United States: Economy

Bleak prospect of sharp recession threatens electorate

by Vogl

modest cuts in capital gains rates worth about \$1,600m in revenues, as well as increases in business investment tax credits, reductions in the rate of corporation tax and moderate cuts in income tax levels.

It is probable that the global total of the tax cuts will be about \$18,000m. This level of reduction, combined with efforts by the authorities to trim public spending, will in sum result in fiscal policy turning modestly restrictive over the next year.

Monetary policy is also likely to become somewhat more restrictive. It is already evident that the present level of short-term interest rates, which in the first seven months of this year were about 2 per cent on average above levels in the comparative 1977 period, are starting now to damp general demand.

The most important single factor likely to reduce demand in the economy is the high rate of inflation, which in the first eight months of this year was running at an annual rate of about 9 per cent. Inflationary pressures in the next few months may abate modestly, leaving an overall rate for 1978 of close to 3 per cent.

The decline in real business and personal incomes produced by continuing high inflation together with increased taxes will probably produce a substantial slowing in consumer and business demand. Some economists predict that this could lead to a mild recession. Argus Research in New York, for example, forecasts a real gap in the final 1978 quarter in 0.1 per cent, then to fall by 2.6 per cent and by 1.6 per cent respectively in the first and second quarters of next year.

Economists at Citibank, by contrast, expect the decline in real growth to be less dramatic and they are forecasting real gap for the next 12 months at about 2 per cent. Unlike Argus, however, the Citibank economists believe the economy will continue on a slow track well into 1980. The Argus forecast calls for an upswing in the second half of next year with a final 1979 quarter rate of no less than 5.2 per cent.

My own view is somewhat more pessimistic than the conventional forecasts of today. Levels of business capacity are about 85 per cent, but this figure tends to overstate the degree of slack available, as much of the capacity measured in the statistics has been rendered obsolete for technological or environmental reasons.

In addition, the supply of skilled labour available is far less than the 6.2 per cent national unemployment rate suggests. This rate is to small extent the product of vast numbers of unskilled women and teenagers joining the labour force. The unemployment rate for adult men is just over 4 per cent, which historically is only slightly above what has long been considered in America as the full employment level.

The rate of new business capital and equipment investment has been too slow and, given the present capacity and labour tightness, there is a grave danger of production bottlenecks arising and releasing fresh inflationary pressures. In addition, the unions are in a militant mood and more inflationary pressures may be set free by settlements reached next year in three important contracts concerning lorry drivers, car and construction workers.

It seems probable that over the next six months the economy will respond in most moderate fashion to the combined effects of more restrictive fiscal and monetary policies and the inflationary erosion of real incomes, while the rate of inflation itself continues to move slowly upward.

Over time, perhaps by next summer, the inflationary pressures may become so great that the economy dives into a recession. The extent of the recession will be determined by the government's response to the economic situation.

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United States: Monetary policy

Nervous markets demand tightening of controls by Fed leaders

Monetary policy in the United States has been overly expansive for several years, and Congress would result in political actions that would lead the Fed to its independence, reduce the Fed to the status of merely another agency fully-controlled by elected politicians and lead to a still faster rate of money growth. He asserted that it was no coincidence that the nations with central banks free of direct political control, such as West Germany and Switzerland, also had the lowest inflation rates.

To dwell on the views of Dr Burns today is to understand the change that has taken place since Mr Miller assumed power. The new Fed chairman has no formal training in economics, nor any experience in monetary or currency affairs. He has a good deal of common sense and appreciates the link between growth of the monetary aggregates and inflation, but he lacks a coherent policy and this is now a cause of serious unease.

There are fears, for example, that Mr Miller will be too easily influenced by the White House and that, as a consequence, the top officials in the White House hold to the innocent view that the Fed can easily determine interest rates and that high rates are bad for the economy and bad for the nation.

This view of Mr Miller was strengthened in early June when he opposed an increase in the Fed's discount rates despite gains in other short-term rates and despite a severe rise in the inflation rate. In addition, despite widespread expectations of inflation gathering momentum well into next year, the Fed publicly expressed by Mr Miller that interest rates are likely to be at a peak within a few months has led many financiers to conclude that the new Fed chairman lacks the determination needed to really cut the inflation rate.

It would be false to overestimate the influence of the Fed chairman, particularly one who lacks the commanding personality, great experience and substantial political skill of a Dr Burns. The chairman has just one vote on the seven-member board of governors and also only one vote on the powerful 12-member Federal Open Market Committee.

All the same it raises no confidence in the markets to have a Fed chairman who talks publicly of imposing Government controls on so-called unreasonable corporate profits and whose numerous statements indicate that he still has not appreciated fully that the current rate of money growth is causing high rates of future inflation—in the year to August 24 the rate of M1 growth was 7.8 per cent, with M2 ahead by 8.4 per cent and M3 up by 10.5 per cent.

The surge in interest rates this year has largely been a product of a substantial private and public sector credit demand, rather than the result of tighter money policies. The average level of short-term rates rose by about 2 per cent in the first seven months of this year over the comparative 1977 period.

The increases in rates, so far, have neither been sufficient to damp credit demand significantly in view of the high rate of inflation, nor to attract substantial inflows of foreign capital. A substantial tightening of monetary policy is essential if the dollar is to strengthen and if the long-term inflation prospects are to improve.

Only in the last two weeks of August, when the dollar came under particularly severe currency market pressure, did the Fed appear willing to take some action, by raising its discount rate by about 0.5 per cent. Given the inflation and dollar problems of today such moves, indicating some tightening of money policies, are barely sufficient.

The willingness of Mr Miller in his first few weeks of office to say all the things Dr Burns used to say and thus diminish fears that the Fed was now in the hands of an ardent liberal, contributed to the sharp rise in April in share prices on American markets. Dealers talked of the "Miller rally" and predicted that share prices would soar.

However, the boom fizzled as Mr Miller and the Fed failed to move in more determined fashion to tighten credit conditions. Usually gains in interest rates depress share prices, but today the opposite seems to be the case, with dealers appreciating that tighter monetary policies are vital if inflation is not to wreck the economy. Recent uncertainty over the Fed's resolve to counter inflation has left American financial markets in a nervous state.

Pension funds are flush with cash, but too nervous to move firmly ahead in building new share portfolios. Brokers have recently been doing well, even in the new era of competitive commission rates, with share trading volume consistently exceeding 30 million shares a session and with some sessions actually seeing levels twice as great.

Many operators in American financial markets have become confirmed monetarists and are alarmed at the Fed's stance. One banker recently suggested "Miller is Moses who has lost his way" and the big question for the markets is whether Mr Miller will sharpen his views, outline more clearly his basic beliefs and determine anti-inflation action.

Compared to this vital issue, the administrative reforms for the securities markets that the Securities and Exchange Commission is deliberating (concerning a national market system) are of minor significance. The SEC may take some decisions within a few months and American markets will undoubtedly be changed in major ways as a result.

F.V.

United States: Dollar and deficit

Inflation roars ahead with no tough energy measures

United States has a balance of trade payments problem. The of this problem are us, but they are not appreciated by the rest and their recognition by international financial markets has been a cause of the dollar's decline in terms of the Deutsch mark and Swiss franc.

The President has entered into one compromise after another on the energy front with Congress and the result is that even today, fully 15 months after the programme was announced, it remains uncertain whether any sort of energy Bill will emerge from Congress this year. Indeed at best it looks as if a Bill will be approved that on optimistic forecasts might reduce oil imports by under two million barrels a day by 1985.

To some extent the Treasury's experts were not alarmed about all this earlier this year. They noted that oil from Alaska was coming on stream and that consumption was rising more slowly than had been expected. They also noted that in the next half of this year the level of imports was about a million barrels a day below 1977 levels at about 8,600,000 barrels.

Confidence on this front was misplaced. The Alaskan output is now at its maximum of 1,200,000 barrels daily and consumption is rising at a 4.5 per cent rate. Imports in the second half of this year are likely to average 9,400,000 barrels daily. Late this year imports are expected to rise sharply before oil price increases by foreign producers. Next year, even with the passage of some sort of energy Bill, it would not be surprising if oil imports totalled more than 9,500,000.

What is needed now is some determined action by the President. He could immediately impose high tariffs on oil imports; he could also ease price controls on domestic energy and by these bring home to Americans and to Congressmen the urgency of the situation. There is a remote chance that President Carter might resort to one or other of these measures early next year.

But America's payments problems run well beyond energy matters alone. Car makers have been slow to meet foreign competition and have only in the last year started to produce more small cars. The volume of car imports has declined, but remains substantial.

In the steel industry foreign competition has produced problems and the Administration's protectionist measures earlier this year are only a partial help. There are scores of American companies that are in desperate need of modernization and rationalization, extending from steel to textiles, shoes and even engineering. These companies

are simply not as efficient as foreign competitors and imports are scoring as a consequence.

The United States Government has been slow to devise campaigns to make many industries more competitive, to help to promote exports and provide similar foreign trade credit facilities to those offered in Japan and Europe.

The Treasury has argued that a major cause of its deficit is that economic growth has been much more substantial than that of its main trading partners. It has insisted that more expansionary economic policies in countries like Japan and Germany will increase American export opportunities and it believes that the recent adoption of such policies abroad will bring about a major improvement in the balance of payments.

It will take years for American firms to penetrate Japanese markets, while Japanese producers are so heavily dependent on sales to the United States that even with the appreciation of the yen they will be able to maintain a high level of sales to America. In addition, the Germans are not simply going to give up the American markets that they have built up over the years.

Moreover, the effects of the more expansionary policies being carried out in Japan and Germany are being daily eroded by the increases in the values of their currencies and neither looks strong enough today to absorb a huge rise in American imports.

Further, many sectors of American industry are enjoying huge consumer demand, helped by the stimulation of financial policies decided upon in Washington recently and thus they are barely in a position to increase exports dramatically.

More important, inflation is roaring ahead in the United States, adding to production costs and so narrowing the competitive edge provided by the dollar's depreciation. And as long as the inflation rate remains so high it is unlikely that capital inflows will develop to reduce the current account deficit.

Indeed it looks improbable that the United States will manage to reduce its deficits to anywhere near a reasonable level, or manage to halt the slide in the dollar for any reasonable time, until the authorities start attacking the fundamental causes of its payments problems.

That demands an effective energy law, a proper anti-inflation programme, a much more comprehensive export promotion strategy, and policies aimed at strengthening the weaker industries.

F.V.

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Japan

Yen for recovery is rewarded

by John Greenwood

The past year in Japan, since the last IMF conference, has provided a lesson in the problems and benefits associated with the enforcement of a disciplined monetary policy. First, the economy has encountered internally and externally various frictions because of the adjustments that have been forced on it. Second, Japanese businesses and consumers are beginning to see the rewards for the period of painful internal adjustment in the domestic economy during 1977.

The domestic recovery is particularly striking because it has not been induced by any significant monetary stimulus. In the year to July, 1978, M2 (a median definition of money supply), grew by just 11.3 per cent which, compared with average money growth in the 15-20 per cent range in most of the postwar period, is unusually slow.

After the major recession of 1974-75, Japan experienced a mild improvement in the level of business activity in 1976, but this was followed by a mini-recession in 1977. However, whereas the first recovery was associated with an acceleration in M2 to about 16 per cent at the peak, and a continuation of inflation, in 1977-78 there has been no such acceleration. As a result there has been a decline in the rate of both consumer and wholesale price inflation. In the year to July, consumer prices rose by 4.1 per cent while wholesale prices fell by 2.5 per cent. Over the same period industrial production rose 8.2 per cent.

Shipments are up 7.8 per cent, and real gnp over the year from June, 1977, to June, 1978, is up by 5.3 per cent (10 per cent in nominal terms). The important point is that because there has been no excess monetary stimulus, and, assuming the Bank of Japan continues with its policy of moderation, business expansion probably will be much more sustainable this time.

The reason is that in past expansions the authorities have been compelled to reduce inflation. On this occasion there should be no such problem. It is true that the gnp statistics quarter by quarter are volatile, but on a longer-term basis the growth rate which the economy is experiencing is already a healthy 5 to 6 per cent a year in real terms. Japan still has substantial excess capacity which suggests that, as the momentum of the recovery builds up, growth could still accelerate.

On the external side, however, the Bank of Japan's disciplined approach to reducing inflation has necessitated adjustments, both with Japan's trading partners and in the domestic economy. The basic explanation for Japan's external trade surplus is that it reflects the interaction of business cycles in Japan and its main trading partners. Because the Bank of Japan has been pursuing a policy of moderation, the Japanese economic recovery is less exuberant than it would otherwise be, and therefore until earlier this year Japanese demand for imports was continuing to decline. But since the United States economy, for example, has been expanding, demand for Japanese exports has grown strongly. Since those pegged their currency to the dollar have also experienced strong domestic expansions, the demand for Japanese exports has shown up as a marked widening of Japan's trade and current surpluses.

Compared with a trade surplus of \$20,300m in 1977, Japan has already recorded \$14,100m in the first six months of 1978. On the broader current account Japan saw a surplus of \$10,600m in January-June compared with \$13,900m for 1977.

However, while the trade balance and the current balance reflect primarily cyclical factors, Japan's overall balance of payments is a different matter. With a freely floating exchange rate the overall balance must, theoretically, balance out. It is true that the yen has not floated freely, with the result that Japan's official holdings of foreign assets have grown from \$17,700m in August 1977 to more than \$29,000m last August.

At the same time since several of Japan's main trading partners have had significantly higher rates of inflation, the prices of their currencies have had to fall in terms of yen. The yen has moved from about 266 to 190 to the dollar or 28 per cent between September 1977 and August 1978. The domestic impact of the rise in the yen has resulted in exporters finding their margins squeezed, while importers have tended to enjoy wider margins. In the first case the response has been either to sell more to the home market, or to rationalize operations in order to maintain sales overseas.

Toyota, Nissan and Honda found that they were able to raise their prices in the United States and elsewhere to combat narrowing margins, but more recently the evidence suggests that the demand for Japanese exports at the higher yen exchange rate is slowing down. Importers, on the other hand, have either used their additional profits to expand their operations or have reduced their prices to Japanese consumers.

An example of the former process is in the retail consumer goods business, and an example of the latter is the case of utilities which are large importers of oil and gas. At the same time marginal firms have been forced to close in considerable numbers. In 1977 18,000 companies capitalized at more than 1m yen went bankrupt while so far this year the average is almost 1,300 a month.

By these sometimes painful means structural adjustments are gradually being made. In the longer term, they will make the Japanese economy highly competitive on world markets.

The appreciation of the yen is therefore a necessary mechanism by which shifts in relative prices are the corresponding structural adjustments are made. Although it is hard to imagine against a cyclical background, in the longer term Japan is likely to become a habitual importer with a persistent trade deficit.

Just as sterling and the United States dollar successively became hard currencies and Britain and the United States became main capital exporters, the strength of the yen will in time impose similar responsibilities on Japan.

Already in Southeast Asia and the Middle East, Japan is beginning to play this role regionally, investing substantial sums in plant and equipment, as well as in joint ventures. It can only be a matter of time before that role becomes a global one.

West Germany

Growth rate certain to fall short of 3.5 per cent target

by Peter Norman

When the world's finance ministers and central bankers gathered in Washington for this year's annual meeting of the International Monetary Fund, West Germany's Finance Minister, Herr Hans Ehard, and the federal bank president, Dr Oskar Emminger, should for once be immune from the standard criticism that Germany should "do more" to aid the world economy.

For the Bonn Government has moved swiftly to fulfil its July summit pledge to increase demand by up to 1 per cent of gross national product next year.

A package of personal tax cuts and increased family benefits will pump an extra DM13,000m into the economy in 1979 and the Government is striving—despite opposition from a powerful combination of state premiers and mayors in North Rhine Westphalia—to cut non-income related taxes on business the following year.

However, the uncertainties about the German economy remain. Growth this year is certain to fall short of the original target of a real 3.5 per cent rise in gnp. With real growth now expected to show little change from last year—the latest forecasts speak of a 2 to 3 per cent rise in gnp—unemployment is likely to be back up to the million mark this winter.

In view of the disappointing results of the Government's previous efforts to stimulate growth despite having pumped more than DM70,000 into the economy since the oil crisis of 1973, it would be rash indeed to predict that 1979 will see final achievement of the desired goal of satisfactory growth in the context of price stability.

In looking at the German economy one can only be struck by the combination of positive and negative factors. On the one hand inflation is low. The present annual rate of consumer price increases of about 2.5 per cent is bettered only by Switzerland.

Certain sectors of the economy are doing well. Building, having survived a painful progress through slump and stagnation, should make a positive contribution to economic growth this year for the first time since 1973. Demand for houses is rising strongly and many building companies complain that they cannot find the skilled labour they need.

The car industry is still experiencing a heady boom in demand. Pessimistic forecasts for the immediate future have come and gone with the seasons over the past 18 months. But registrations of new cars should exceed last year's record by a small margin this year. Car output is expected to increase by a further 3 per cent to nearly four million.

The retail trade, after many years in the doldrums,

seems at last to be benefiting from an upturn in consumer spending.

The stock markets have been reaching new peaks this summer and business confidence appeared to be reviving strongly before the outbreak of currency uncertainty affected the D mark recently.

On the other hand the strength of the D mark on foreign exchange markets, illustrated again by August's currency crisis, exerts a constant pressure to adapt on exporters and exposes more and more branches of German industry to greater competition at home.

The strength of the D mark has made Germany's wage costs the second highest in Europe after Sweden. The ability of the unions to extract real wage increases in each annual round of collective wage bargaining since the oil crisis has precipitated a forced rationalization of many industrial processes that has cut demand for labour at a time when demand for jobs is growing because of demographic factors.

Germany's public finances are also a cause of concern. Although the Federal Government is confident that this year's public sector borrowing requirement of about DM160,000m can be satisfied, it is feared that the state's growing indebtedness must one day set off a competition for funds that will push up interest rates to the point where they will be felt by industry as an added cost burden.

The rise of the D mark and the continuing weakness of the world economy have exposed serious structural problems in industries such as steel and shipbuilding in regions such as the Saar, the cure for which will inevitably cost jobs.

The various pressures have also contributed to a deterioration in relations between organized labour and industry.

At the highest level this deterioration manifests itself in the kind and rather stylized dispute between the employers and trade union leaders over the new *Mitbestimmung* or worker co-determination law. One of the last acts of Herr Hanns Martin Schleyer, the employers' leader who was kidnapped and murdered by terrorists a year ago, was to take this act, which provides for near equality of representation of workers and shareholders on the supervisory boards of large companies, before the Constitutional Court.

Herr Schleyer might have had second thoughts if he could have foreseen the results. The unions ostentatiously pulled out of the "Concerted Action Committee"—the body which used to bring labour, management and government together for discussions on the economy—and have shown little enthusiasm for a return.

The acrimony thus gener-



ated spilled over into the spring round of collective wage bargaining. Admittedly, the war of words tended to be far more alarming than the outcome of the negotiations.

Wage increases this year have been lower than they were in 1977. But the union stance does seem to have spawned a greater militancy at industry and plant level that found expression in strikes this spring in Baden Württemberg's steel works and the German printing industry.

The strikes were essentially concerned with job preservation and the maintenance of incomes of workers threatened by rationalization.

Although it would be wrong to deduce that German industrial relations have irrevocably taken a turn for the worse, the old relationship between employers and employed

that marked the *Wirtschaftswunder* (economic miracle) is ably a thing of the past. The underlying cause is the importation of modern industrial techniques which are a vital key to future economic growth.

The country's adjustment as far as it is to the pressures of the rise in the D mark owes a great deal to the adaptability of industry and the summer's government promises to raise the income of employed people. If it is also to investment and it will have to be by the unions it only moderate increases this winter no more than for price increases.

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France

Price of bread symbolizes end of an era

in Murray

On 12, 1978, can already be one of the most important dates in French history. On that day for the first time in 200 years, French people were allowed to choose whatever they wanted for their bread.

The price of bread has been of tremendous significance in France. It was the spark which set the French Revolution free, the price of freedom, the price of the end of an era.

In France and showed people in the most realistic way that the Government really meant it when it had taken the irreversible step of freeing prices. A decision to free in prices was taken in 1958 and has been continuing ever since. At the time the Government began the process of freeing its subsidies nationalized industries, attention is that every man should have the right to charge as much as he wants to stay viable and never again should any aspect be bailed out of public money if it is in difficulties. The financial plan to salvage the steel industry, announced last year, is presented as a national measure.

It is a hard and one which can only be undertaken by any government in the first few months

of coming to power or being returned to power. The unexpected large victory of the government majority in the March general election cleared the way to embark on it. It gave four clear years for the system to be imposed and for the inevitable hardships it would entail to be treated.

The hardships have been felt in the two inevitable ways—inflation and unemployment. Inflation, because the freeing of prices, particularly of the public utilities, has pushed up the cost of living rapidly.

In July the cost of living index rose by 1.2 per cent. This was by a long way the biggest monthly rise of the year, and prices have been going up steadily since the election. Unemployment is up because firms unable to stand up to the new prices are closing at a time when many of the traditional industries like steel, textiles and the shipyards are feeling the effects of world recession.

At the end of last month the Communist Party organized a rally from firms threatened with closure. There were representatives from more than 700 companies. The latest official unemployment figure is 1,241,000 and the Government itself would not be surprised to see the figure top the 1,500,000 mark by Christmas.

But with a safe tenure of the front bench at the National Assembly assured

for the next three and a half years, the Government is showing no signs of being in any way perturbed by these statistics.

The claim is that the inflation figures are inevitable while the removal of subsidies and the freeing of prices is going on. As long as incomes are index linked there is no loss in purchasing power and in the end things will steady and stabilize.

The Government is showing every sign that it is concerned about unemployment without really going very far to meeting the demands of the unions or the left. The underlying philosophy of M. Raymond Barre, the Prime Minister, is that when the economy is sound then employment will be secure and that drastic measures now are merely a waste of money. There is no intention to soak up unemployment by expanding the public sector. There are real signs of renegeing on the firm stand against lame ducks.

Nevertheless the French budget for 1979 which was put forward earlier this month did make the unemployment problem its main target. If it is not prepared to support lame ducks it is prepared to spend money on creating new and healthy industries in an area affected by unemployment.

M. Barre himself will head a committee which has been set up to administer a new fund worth 3,000m francs and which will be available

to help as and when considered necessary. In all the extra money being spent on job creation alone is being increased by 23.3 per cent over the year, while there is also to be a substantial increase in the amount spent on vocational training.

M. Francois Ceyrac, leader of the French employers' federation, said earlier this month that he was confident the worst of unemployment would be over by the end of this year. Those who rule the French economy believe they really do have the problem in hand.

That is the hallmark of the controllers of the French economy of today—a deep confidence that the necessary is being done and being done successfully. M. Barre has been in office as Prime Minister now for two years. He took on the job with no political pedigree but a reputation of being the best economist in the country.

No one can deny that the Barre plan which he immediately put into operation has had results. It has certainly achieved two of its three aims—putting the balance of payments into the black, and stabilizing the value of the franc. The third aim, of curbing inflation, has not been achieved yet. M. Barre has estimated this may be as high as 11.5 per cent this year as a result of the freeing of prices and of subsidies. But he is unconcerned. He feels inflation is under control. M. Barre's time in office

has increased his cautious realism. He has predicted this year would see a growth of 4.5 per cent in the economy. For next year he has set his sights somewhat lower at 3.7 per cent.

He expects a 7 per cent rise in imports and a 6 per cent rise in exports. He thinks household spending will rise by 3.8 per cent and business investment by 5.5 per cent. He hopes to keep inflation down to no more than 7.9 per cent, compared with 9.5 last year.

M. Barre's budget—and although there is now a new Ministry for the budget there can be no doubt that M. Barre is really the originator of it—has set out to tackle the problem of ensuring expansion at a time when the international economic climate is at best mediocre. That is a conundrum facing every government, but M. Barre exerts confidence that he can really solve it.

The main dangers facing his policy include the great dependence of France on imported energy sources. A sharp increase in the cost of oil would have a particularly disastrous effect. Another major worry is the growing militancy of the unions faced with the twin problems of unemployment and inflation.

M. Barre is seeking to convince the unions that the present inflation should not worry them and that unemployment will go away. It is a trick that requires great confidence to pull off.

Italy

Hopes pinned on the Pandolfi plan

John Earle

Italian Government further negotiations the International Monetary Fund this autumn in the belief that it is making more determined effort its predecessors in to mobilize opinion and an economic strategy the period ahead.

It is nevertheless significant that Christian Democrat politicians, traditionally allergic to a global view of the economy, are engaging in overall planning, albeit with prodding from visiting IMF experts. It is not the first time that a government has produced multi-annual plans. Much more ambitious and, it proved, unrealistic documents were drawn up in the centre-left years of the 1960s, but this was under socialist influence, when Signor Antonio Giolitti was budget minister and Signor Giorgio Ruffolo, chief of planning.

Signor Pandolfi's 28-page outline, unlike many Italian government documents in the past, is in language which most people can understand. It does not gloss over difficulties, but gives a warning that the unexpectedly high levels of the balance of payments and the reserves mask an unhealthy and unstable situation, in which Italy is drifting away from its allies. The option is whether Italy can remain with the European Community or will drop out of Europe.

The extent of the deviation from course can be seen by recalling the targets laid

down in the letter of intent accompanying the IMF standby credit of 450m special drawing rights in April 1977.

The enlarged public sector deficit for 1978 was set at 14,450,000 lire (then about £3,625m) or 7.6 per cent of gross national product, but now is estimated at 28,480,000 lire (£7,800m) or 14.1 per cent.

Consumer price inflation was to be down to 8 per cent, but still runs at 12 per cent, much better admittedly than the figure of at least 20 per cent a year ago. According to the Pandolfi document, the level may rise again next year to 14 per cent.

On the other hand the balance of payments, instead of being modestly to the good, had half way through this year amassed an uncomfortably large surplus of more than 3,400,000m lire (£2,125m). Reserves at the end of July stood at a record \$22,700m (valuing the gold content at 15 per cent below market value), against official and banking debts contracted abroad of \$17.2m.

This situation reflects stagnant industrial production, which only recently has shown signs of picking up after 11 consecutive monthly falls (on a 12-month basis). When recovery comes and stocks are rebuilt, the fear in official quarters is that

the fall in balance of payments may be swift.

Hence it is still considered necessary to negotiate further IMF and EEC standby arrangements, even if the high level of the reserves has made possible early repayment of existing debts to the Bundesbank and the EEC. Hence, also, it is considered that Italy must proceed with caution in joining the proposed European monetary stabilization arrangement, especially as inflation remains notably higher than elsewhere in the Community.

The Pandolfi document foresees, on the basis of present trends, continuing 12 to 24 per cent inflation, annual growth of gross national product little above 3 per cent in real terms, persistence of unemployment at present levels (the highest for 15 years) and gradual evaporation of the balance of payments surplus in 1979.

In setting out a strategy for the future, it presupposes that world trade, expanding annually by 4.5 to 5 per cent, will enable exports to grow annually in 1980 by 6.5 per cent. It should be possible for gross national product to expand sufficiently to increase employment by 500,000 to 600,000.

This, however, rests on three conditions. First, a curb on the growth of public expenditure. The document aims to reduce the enlarged public sector deficit from 16.7 to 14.8 per cent of gnp in 1979, while at the same time channelling more into capital investment. It suggests also borrowing a further 2,000,000m lire (£1,250m) abroad. Second, a near halt to wage increases in real terms. Third, increased mobility and flexibility in use of the labour force.

If the Pandolfi plan provides a point of departure for the next three years, this has been made possible by the relative stability of the lira in spite of confusion on international currency markets and internal political convulsions that have included the assassination of the Christian Democrat leader Signor Aldo Moro and the resignation in disgrace of President Giovanni Leone.

While defending the currency, the authorities have followed a policy of gradually dismantling the artificial controls which two years ago surrounded the lira. Interest rates, though tending gradually to fall, have been kept substantially above those elsewhere in the European Community.

Ceilings are maintained on the domestic expansion every two months of bank lending, and it has been customary every six months to instruct banks to invest 30 per cent of the increase in their deposits in lira-denominated bonds. In the persisting stagnation this summer, bank liquidity has been high.

The dismantling of lira controls, after the abolition of the surcharge on foreign currency purchases in February 1977 and that of the import deposit scheme in April 1977, was followed by the discontinuance in June this year of the requirement to finance a percentage of export invoices with foreign credits.

The individual travel allowance this year has been raised from 500,000 to 750,000 lire (£12 to £470). On July 3 the Bank of Italy repaid in advance to the

Bundesbank \$1,000m remaining from a gold-guaranteed loan, and subsequently permission was asked to repay in advance sums owing to the EEC. At the same time, since June last year the discount rate has been lowered in stages from 15 to 10.5 per cent.

Controls naturally remain on capital outflows, and if anything have been tightened in the past two years. One control for whose removal pressure is beginning to build up is the 50 per cent supplementary deposit on new foreign share purchases, which in practice prevents Italians from investing legally in the stock exchanges of the European Community. The goal of free European capital markets remains little more than a mirage.

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(in billion Lit)

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● Customer deposits	1,321
● Due to banks	168
● Others	174

LOANS

● Customers	595
● Due from banks at sight	190
● Others	235
● Compulsory reserves with Banca d'Italia	183

GOVERNMENT AND OTHER SECURITIES

	480
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CAPITAL, RESERVES AND FUNDS

	57
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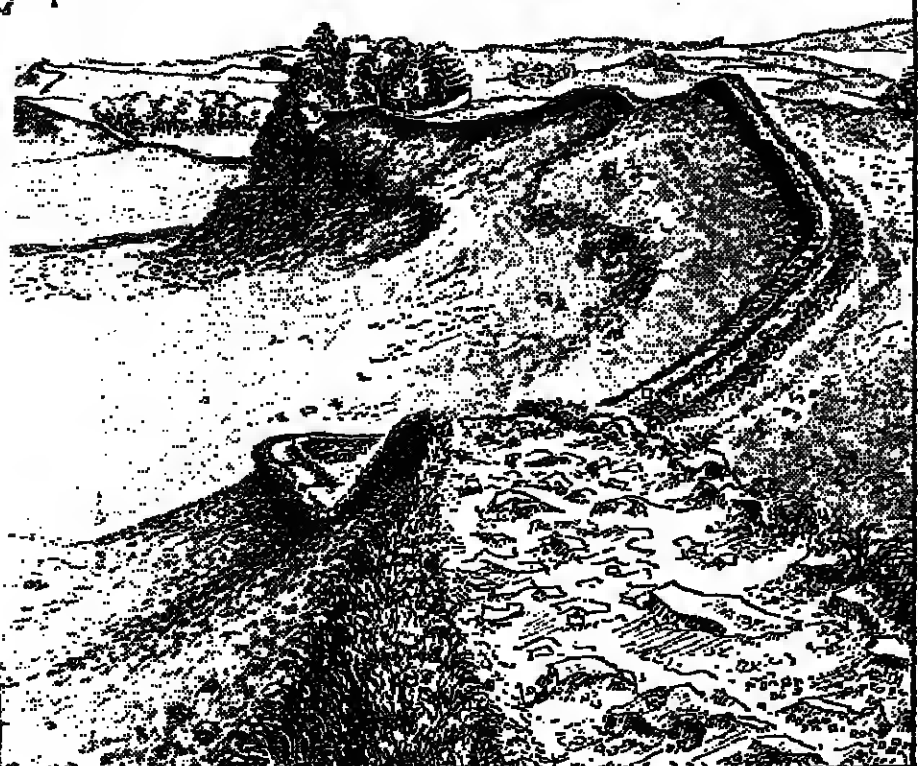
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Head Office: ROME—Via Arlene, 31. Tel. 8589
Consolidated Balance Sheet of the STET Group

Assets	at 31-12-1977 (in billion lire)	Liabilities	at 31-12-1977 (in billion lire)
Fixed assets:		Net capital:	
—telecommunications plants	2,257.0	—portion attributable to STET	1,074.0
—other	1,351.0	—portion attributable to third parties	740.1
	3,608.0		
Warehouses	9,788.0	Share Funds	1,974.1
Securities and shareholdings unconsolidated	797.9	Social Security Funds	2,500.6
Treasury	28.0	Other funds and reserves	744.1
Users and clients	97.8	Debtors' loans	218.3
Sundry credits and miscellaneous items	532.5	Long-term loans	118.6
	12,204.0	Medium-term loans	594.6
		Financial debts	545.5
		Current debts and miscellaneous items	774.5
			1,373.7
Economic Account		Profit	10,336.6
Costs:			50.3
Raw materials, semi-finished and finished products-inventories	673.3		
Labour costs	1,522.0	Economic Account	
Expenditures for purchases and services	936.5	Turnover	2,879.3
Redemption	422.5	Increase of plants and other property for internal works	347.9
Financial expenditures	146.4	Final remnants of raw materials, semi-finished and finished products	787.9
Taxes and rents	65.4	Financial receipts	34.0
Allocations to risks funds	26.3	Other receipts	37.7
Other expenditures	4,186.5		
Profit	50.3		
	4,216.8		4,216.8

The annual general meeting of the company was held in Turin on the 19th July, 1978, under the chairmanship of Dott. Arnaldo Giannini.

The balance sheet approved by the shareholders closed with a profit of over 50 billion lire which allowed for a dividend of 10% to be distributed.

The aggregate volume of the Group's investments—over 1,500 billion lire, of which about one third is allocated for Southern Italy—has ensured, apart from maintaining a high standard of modernization and efficiency from the plants, the safeguarding of employment, which at the end of the year exceeded 130,000 units.

The manufacturing and electronic concerns of the Group have been characterized by a high level of integration with the business-servicing concerns, and have shown better results for 1977 than in the previous year.

The financial commitments of the Group for research in 1977 were considerable—115 billion lire—while in the same field the Group has continued to strengthen its own presence in the international area after the successful launching of the SIRIO satellite.



Shipbuilding at a wharf in Amsterdam.

Switzerland

Telling year for the banks

by Alan McGregor

This is the year of the economic question mark for "little Switzerland"—an appellation being used not infrequently these days by bankers and industrialists. They thereby seek to underline the point that, however prosperous, a country so dependent on world trade and banking cannot avoid experiencing adverse repercussions consequent on international economic difficulties.

While these so far are more expected than perceived, the Federal Government, prudently, has already run up the early storm warning by emphasizing that the Swiss potential for influencing massive external perturbations is strictly limited.

Even the prime achievement of near-zero inflation and stable prices cannot shield export industries from the pressure of the soaring franc. It continues on its upward course despite measures, regarded by the bankers as draconian, to curb the inflow of foreign funds.

Since 1970, the process accelerating after the introduction of floating exchange rates in 1973, the Swiss currency's appreciation has been meteoric: about 200 per cent against sterling and more than 150 per cent against the dollar.

Even in the past 12 months, the franc has risen some 40 per cent against the average of the currencies of Switzerland's dozen main trading partners. As the first of those partners, as well as foremost competitor in export markets, is West Germany, the 8.3 per cent appreciation against the Deutsche mark in the four weeks to mid-August sufficed to alarm even the more sanguine.

"This manifestly corresponds in no way with economic realities," the Government observed last month after a well-publicized extra session of the Cabinet. A recent study by one of the leading bank's economists puts the real over-valuation of the franc at 20 to 35 per cent.

The question mark concerns the ultimate effect this may have on exports. So far it has been minimal. Swiss manufacturers emerged in good trim from the 1973-75 recession. Restructuring raised productivity and made them less dependent on foreign labour. One expert has said indeed that the reduction in the foreign labour force—about 250,000 since 1973—made it possible to squeeze inflation out of the economy.

While industrial production is up by only a small percentage since 1975, its manpower is down by more than 15 per cent. There is a marked decrease in pressures on the basic services including schools and hospitals, contributing to a more relaxed social climate.

Many of Swiss quality high-tech products are not very sensitive, being capital equipment, some items, indeed pharmaceuticals, per cent of total, the first quarter specialized as to available elsewhere.

This is in a with delivery contracts out escape or price clauses because of the renegotiated labour contracts other purely in liberal and the finance guarantees in general to examine attitudes carefully about willingness.

In addition, aims have been with more emphasis on the tendency to barrier and cost restrictions. The estimated at most per cent of export their competitors by the high tech entrepreneurs are take the view the nation arrangements be gone after, or sively accepted meux.

If the positive apprehensions. A ob orders are usually takes sig or so before to work their way Swiss economy, only started in the pinch of the sec 1977—when foreign investment in the fi of this year.

After a 20 per to orders, the x tant export machinery and ing orders, ha better second qu cially the elec major equipmen generators, large so on. Exports year were 37 per cent.

The picture is p some of the big said to be hurting medium-sized on tions vary wide has built up a ciciot structure, profits being dr by a factor outv trol the over-va

The haunting i enterprises migh long run be f drastic concentr falling employ forced to turn i including subsid side Switzerland, however, what o called a firm c corporate savings to on—and on the level the Swiss world's thirties with a higher per per capita saving other country.

And the banks, to bring in at le tent of the coun tible earnings, ar directly vulnerabl sion than indu combined turnov big three is said the gap.

Belgium and The Netherlands

Traditional industries reveal serious weaknesses

by Peter Norman

The Benelux countries are making heavy weather of recovering from the world recession of 1975.

Although the real gross national products of The Netherlands, Belgium and Luxembourg will grow rather more rapidly this year than in 1977, it seems certain that the scale of recovery will be insufficient to prevent a further rise in unemployment.

Holland has recently cut its growth forecast for this year to about 3 per cent or a full percentage point below the level that is regarded as having a neutral impact on the labour market.

The Organization of Economic Cooperation and Development (OECD) last month forecast a 2.75 per cent growth rate for Belgium while the authorities in Luxembourg expect economic growth of 2.5 per cent. In both cases the OECD says that unemployment is likely to rise.

Only on the price front can the governments in The

Hague, Brussels and Luxembourg have some cause for satisfaction. The inflation rate in the three countries should fall below the 5 per cent level this year and so come close to the 2.5 to 3 per cent level expected in West Germany, the Benelux countries' most important trading partner.

Unemployment, which in Belgium reached an alarming summer peak of 8.7 per cent in July and in Holland stood at an unsatisfactory 4.3 per cent, is the major economic problem to be tackled in the Benelux countries.

But, for a variety of reasons, the chances of speedy success are slight. More than in most regions, the economic welfare of Holland, Belgium and Luxembourg depends on the prosperity of other nations.

The Netherlands and the Benelux-Luxembourg economic union have the highest degree of export dependency in Europe. About 44 per cent of Holland's gross domestic product is exported and the percentage rises in the case of Belgium-Luxembourg to just under 50 per cent.

Furthermore, the Benelux countries are to a large extent dependent on the West German market which absorbs about 30 per cent of Dutch exports and between 20 and 25 per cent of the goods sent abroad by Belgium-Luxembourg. Hence they suffer a handicap in achieving growth and fuller employment as long as the German economy remains in the doldrums.

The situation would probably be less complicated if the Benelux states were not so dependent on Germany as their largest single supplier. This fact has made desirable the tying of the guilder and Belgian franc to the Deutsche mark in the European joint float as a means of avoiding the adverse economic effects of imported inflation.

Membership of the Snake has banished the prospect of double digit inflation, but imposed its own strains on the economies of the three countries.

Unions accept modest wage increases

The rise of the guilder and the Belgian franc in line with the mark has raised doubts as to the continuing competitiveness of Dutch industry, particularly in exports, and exposed serious structural shortcomings in some of the older established industries in the three countries.

Although the trade unions in Holland, Belgium and Luxembourg have accepted modest wage increases since the recession, the rise of the guilder and franc has helped to make out labour costs in the Benelux countries among the highest in Europe.

The export of goods and services from Holland fell last year and the country's share of world trade will decline again this year if exports rise by the forecast 3 per cent in volume compared with an expected gain of 5 per cent in world trade.

The strength of the Benelux currencies and the sluggishness of the world economy have exposed traditional industries to toughest competition on both domestic and foreign markets. Holland's shipyards, the textile industry of Flanders and the steel industries of West-Belgium and Luxembourg have been shown to have serious weaknesses.

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BANCA NAZIONALE DELL'AGRICOLTURA

The overall performance of the United Kingdom economy, British industry and the City are assessed on this page

Long-term problems become more pressing

by David Blake

Britain's economy had the kind of year in 1978 which used to be experienced in the 1950s. Growth was slow by world standards but it reached a clearly measurable level of about 3 per cent for the first time since the oil crisis. There were only minor flurries of excitement in the financial markets, with none of the crises of 1976, when sterling fell, or the excitement of 1977, when money poured back.

This apparent picture of normality

Yet behind this apparent picture of normality lurked the long-term problems which face the British economy are becoming more pressing. Essentially they are the old problems of low growth, low productivity and poor manufacturing competitiveness. But these old problems are now more difficult. As the National Institute for Economic and Social Research put it: "The United Kingdom now faces apparently intractable problems" in reconciling full employment, low inflation and payments balance. This year's recovery in the economy has been fuelled by wage increases outstripping prices with a rise in earnings of about 14 per cent to 15 per cent and prices rising by only 5 per cent. This increase in the real value of gross earnings has been enforced by government tax cuts. It is not clear how the Government foresees its own reductions in taxation were going to add to an already large increase in earnings, thus fuelling a consumer boom ahead of an

election which everybody expected this autumn. The Government's own rationale for the stimulus administered through tax cuts was that this would disperse workers from pushing for wage increases much above the 10 per cent guideline which they set down. Whatever the reason for their action, the result was to increase real take-home pay by about 5 per cent to 7 per cent with a similar increase in consumption coming shortly behind. This increase in living standards faces the Government with a difficult prospect for 1979. On all present forecasts the economy will slow down significantly in 1979, with unemployment rising and living standards either falling or remaining stagnant. This might happen at a fairly low level of inflation if the Government succeeds in making its new 5 per cent pay policy stick or at a higher level of inflation if wages rise more.

What does seem inevitable is that unless there is a new stimulus from the Government, private consumption in the year ahead will provide no new stimulus to the economy. The Government's immediate short-term problem is that it is difficult to see any room for it to give a stimulus within the constraints of its own policies.

Government borrowing this year will be near the £5,500m ceiling agreed with the IMF and effectively required by the City. Money supply, after drastic action taken to control private bank lending, is now back within the limits imposed by Government but is still growing at a pace which worries the financial community. And the balance of payments shows no great room for expansion either.

It is difficult to see how the Government will be able to deliver anything more generous than a neutral Budget next Spring; though we can be sure that it will try to find something in view of the prospect of an election. The problems facing the Government in the short term are not merely temporary. For even if the immediate problems of budget deficit and money supply could be overcome, the medium-term outlook on the balance of payments is such that there seems to be little that traditional management policies on their own can do to bring down unemployment from its present level of about 1,300,000.

Real worries of price competitiveness

There are also real problems of price competitiveness. Some of these are probably caused by the Government allowing sterling to rise to an unrealistically high level in its anti-inflation fight, but few people would now believe that a simple devaluation strategy would succeed because it would almost certainly lead to renewed wage demands.

The thrust of the Government's policy for the past three years has been to fight inflation while leaving unemployment on one side and hoping something could be done about it later. The argument was that only when inflation had been conquered could unemployment start being reduced. The political calculation was that people were more worried about rising prices than unemployment.

This calculation now looks very dubious with unemployment generally rising. The Government may be right in thinking that if it can succeed in bringing inflation down again in 1979 it will lay the basis for sustained expansion in subsequent years. But if it is right, it still has not shown just how this is to be done.

Rationalization vital to survival

by Maurice Corina

British industry has seen few streaks of silver in the clouds that continue to cast shadows over the economy. In comparative international terms, the level of cost inflation and competitiveness is still the biggest handicap. Even switches from home to export demand, which have helped to maintain the still inadequate levels of production, have run into the ironic difficulty of a rising pound, which is beginning to threaten some marked progress in raising exports.

Heavy unemployment and lean order books are not peculiarly a British problem, but, faced with inadequate demand, there has been within industry an acceleration of reductions in workforces, with temporary employment subsidies acting only as a partial brake. There are no miracle cures for specific industrial ills. Throughout this year, the work on the industrial strategy has continued, with 40 sectoral working parties setting out objectives for their particular industries. There is now a slowly emerging pattern of firm recommendations and even of action. For example, specific aids to investment to deal with identified difficulties and requirements are being taken up fairly rapidly across a broad spectrum of industry.

Fortunately, political controversy does not extend these efforts for both the TUC and CBI like this kind of collaboration and it has helped to raise understanding within the Treasury of industry's aspirations. However, the Department of Industry has continued to grapple with some specific intractable industrial difficulties.

Certain essential industries, such as steel, building, aerospace and oil manufacture have fundamental problems of adjustment. The difficulties which afflict British Leyland, Chrysler UK, British Shipbuilding, British Steel, and others are well known. None can report significant changes in fortune for their various industries, for their tasks can only be viewed as medium and long-term battles for survival. Huge sums are required for necessary investment. Workforces have to come to terms with the unpleasant realities of rationalization.

Few sectors of industry have escaped in recent times from fundamental reviews. Finding work in shipbuilding and such issues as the impact of the worldwide slump in steelmaking have required the attention of international administration.

There has been a resultant surge of activity within the European Community to define common problems and to find some unity in national policies when restless and vocal workforces are demanding more safeguards for their jobs and industries.

Heads of state who fly to economic summits have raised expectations, which appear to be subsequently dashed. Yet the summits are vital. The rise in world demand remains steadfastly out-of-line with the trends of past decades. Continual delay in achieving solid agreements only reduces both the optimism of industries and confidence among businessmen that economic managers really know what they are about.

Whatever the merits of price, dividend and pay controls, the private sector of industry has continued to fight against the historic decline in its real profitability. Some of the nationalized industries, such as gas, electricity and the Post Office, where the size of surpluses has caused some comment, seem more buoyant. Private industry continues to make fairly savage economies which seem to be dictated by economic circumstances rather than a sustained belief that factories must be reorganized in preparation for the promises of the Chancellor that higher growth is on the way.

Rates of investment have certainly improved this year, but the level is nowhere near what is required to lift the amount of capital behind British workers to appropriate amounts comparable with international competitors.

The threat of a return to a higher rate of inflation

after this year's containment is a real one. Businessmen know their unit costs best. Their response to government exhortations to invest and to reequip for higher productivity turns on judgments about the economy.

The uncertainties about the battle against inflation erode business confidence, the vital factor in the rate of capital expenditure. Any incoming administration, whether it is Labour or Conservative, will need to provide early guidance. Meanwhile, the CBI is bravely attempting to lift industry out of the political arena, defining its own programme of action. Its latest policy document, *Britain Means Business 1978*, has been rushed out ahead of an election, and it has an underlying message: that governments must be supportive not interventionist.

For all its faults and partisan pleading of the industrialists' causes, the document cannot be ignored by any new political administration, which depends in the end on the cooperation and reactions of business if industry is to be out into better shape while the benefits of North Sea oil to the general economy accrue.

It is certain that industry understands what is required in terms of new investment, job creation, export objectives, productivity and all the elements for ensuring better performance. The trouble is that governments, which come and go, tend to overturn each other's policies and disturb the span of stability which is needed to put things right.

The author is Industrial Editor, The Times.

Rise in shares is result of confidence

by Christopher Wilkins

Six months ago there could not have been much doubt in the mind of the observer, that the stock market had moved into a bear phase. The Financial Times Index having reached 549.2 in September 1977, a record, had fallen to 430 by March.

The fall was deceptive, however. During the early summer the market stabilized in the 450-480 range and since then it has improved. In August it moved decisively above 500 climbing higher to this month's level. The old stock market aphorism "Sell in May and go away" has, not for the first time in the present decade, proved to be badly wide of the mark.

The All-Share Index, perhaps the best measure of the market, breached the previous limit only last month. Explanations for changes in prices are easier to find after the event than they are at the time, but the recent rally has been distinguishable from earlier movements by two important factors. First, the rise in ordinary shares has not been significantly stimulated by gilt-edged prices and, second, it has owed little to the performance of the pound.

Gilt, for instance, which had begun to show marked weakness at the beginning of the year, continued to fall until the middle of the summer. And while they have recovered somewhat since then the revival has been, at best, subdued. Throughout the summer, apart from one breathtaking burst in June, the Government has found it very difficult to raise new funds in the gilt-edged market. The pound meanwhile has

been generally stable since March, owing any firmness rather to the weakness of the dollar than to inherent strengths.

The important point here is that, over the preceding two years, the gilt and sterling markets had been the key to equities. Institutional investment interest focused almost wholly on gilts, and it can now be seen that the strong rally last year in ordinary share prices was not accompanied by any big increase in buying by insurance and pension fund managers. In 1977 the insurance companies bought £2,227m of gilts compared with only £576m of new equities, and while pension fund equity buying of £1,419m exceeded gilt purchases of £1,166m, the balance in favour of ordinary shares remained well below earlier levels.

Where then should one look for an explanation of the rise in share prices? Mainly it is a question of confidence. Since the collapse in 1974, which brought the FT Index down to a mere 146 at the beginning of 1975, share prices have jumped but the recovery in confidence has been much more tentative than the revival implied.

While Government was moving generally in the right direction the City felt it was moving too slowly and sometimes too late. The economy lurched from crisis to crisis, and until the beginning of 1977 it did not appear that matters were coming right. This obsession with the basic economic question largely explains why the gilt-edged rather than equity market became so much the centre of investment attention.

The indications last year that inflation and the money supply were being brought under control, that the balance of payments outlook was becoming brighter and that sterling was becoming a more soundly-based currency all help to account for the strong performance of gilts, and ordinary share prices duly rose in their wake. Even from this improved base, however, it seemed late in 1977 and early this year that the hard won gains might be frittered away. Thus, for insurance, the money supply showed signs of rising in excess of government targets; the weakness of oil prices resulting from low world-wide economic activity and the delays with North Sea oil production served to cast doubts over the trade balance; the prospect of an extension of pay restraint looked uncertain, raising fears of another pay explosion. And it increasingly became clear that the inflation rate would level out and begin to rise in 1979.

The markets found the prospect of a general election unsettling, suspecting that the Government's tax reduction programme owed more to a desire to see living standards rising again than to any genuine conviction that it was the right policy.

But more recently some of these fears have begun to evaporate. The turning point was the introduction of the "corset" in June on terms which looked particularly tough for the banks. It was designed to impose tight constraints upon the banks' ability to increase their lending and thus to check the growth in money supply. Recent banking and continued on page IX



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is our business

by Nicholas Hirst

Discussions among members of the Organization of Oil Exporting Countries this year are dominated by the effect of the decline of the dollar on their revenues and the glut of oil on world markets.

The second point has effectively prevented Opec from doing anything about the first. The last general price rise was in January last year. Since then the dollar has declined by about 14 per cent. Experts met in London in July to consider ways of insulating Opec members from the continuing erosion of the real value of the money being paid for their oil, but nothing has been done.

Rumours of meetings have come and gone like autumn swallows on telephone wires. It is unlikely now that anything will be done until members have their half-yearly meeting in Abu Dhabi in December and even then the likelihood of any action specifically to protect revenues from the dollar's decline seems increasingly remote.

Nothing has been done, indeed, nothing effective could have been done without either further damaging the dollar or putting too great a strain on Opec solidarity.

A wealth of schemes has been proposed and considered, some of which have merit theoretically, but practically get nowhere.

Essentially the variants all suggest the same thing: that the price of oil should be linked to a basket of currencies. The dollar price paid would then depend on its value against the weighted average of the currencies when payment was made. It would be easy to administer and would protect oil producers against fluctuations in the dollar price.

The immediate effects of introducing such a scheme, however, would almost certainly be to cause the dollar to fall further, creating more disruption to the American economy. The Saudis, particularly, are anxious to do nothing which would precipitate another recession.

A greater danger for Opec members could be that the dollar has fallen as far, or nearly as far, as it is going to fall. A system of a basket of currencies would work both ways. If the dollar is about to rise, a weighting system would prevent Opec getting the benefits on the way up, which it lost on the way down.

So while there is talk of having to take action if the dollar falls any further, there is really a great reluctance to do so in case it proves to be exactly the wrong moment. All these considerations will be present in as much force in Abu Dhabi in December as they were at the June half-yearly meeting in Geneva or the meeting of experts in London in July.

Despite the belief of oil ministers like the moderate Dr. Mansour al-Otaibi of the United Arab Emirates that an agreed scheme to be introduced at Abu Dhabi, the simple solution to declining revenues remains a straightforward rise in prices.

The Abu Dhabi meeting will have to decide whether

Opec

Members weigh basket's pros and cons

the market is strong enough to take any rise.

A rise will be made if at all possible. Opec members have seen their revenues dwindle in real terms even more because of inflation than because of the decline in the dollar; but a rise which led to immediate discounting through improved credit terms and other similar devices would only serve to damage Opec's strength.

Predicting Opec decisions three months before they are made is difficult and the results of the mid-year Geneva meeting have hardly made this easier. The lack of a special meeting to correct the loss of revenue through dollar declines shows an unwillingness to rush into a rise. The most influential Opec leader, Sheikh Ahmed Zaki Yamani of Saudi Arabia, appears more cautious every time he speaks.

At Geneva he was talking of small regular rises to prepare for the predicted shortage in the mid-1980s. More recently he has been saying that Saudi Arabia has not decided whether to go for an increase or maintain

the two-year-old freeze.

Iran's attitude before its internal troubles was more definitely in favour of an increase. Its support of Opec to maintain the unified front Opec has presented on pricing since the short-lived and damaging two-tier structure of the first six months of 1977.

Provided that the Shabir remains in power, its gentle pushing of the Saudis is likely to continue; what happens if he falls is not predictable, but the effects of a civil war would be only too plain. Supplies would suffer. The removal of the average daily production of about 5,500,000 barrels would quickly alter the world surplus. Supplies would probably be available to make up the difference, but prices would certainly tighten.

Iran's problems apart, Opec oil output has been recovering from the sharp decline of the first quarter. Production during 1977 was static as new sources of supply flowed from the North Sea, Mexico and Alaska. That production has in-

creased further this year and has been more than enough to take up any un-

derlying increase in demand. As a result Opec production in the first half of the year was the lowest for two years. More than 60 per cent of the fall was taken by Saudi Arabia and Abu Dhabi, which formed the lower tier in the split price structure which

although cancelled in mid-1977 created extra demand for their crudes in the first half of last year. Output did not rise between the first and second quarters, however, and a sharp increase during the second half has been expected.

It is doubtful how far such an increase would reflect a real increase in demand. Fears of varying kinds have created nervousness in the "spot" market for crudes and there is the usual evidence of stockpiling in advance of an expected increase at the Opec meeting at Abu Dhabi.

Prices of lighter crudes have been lifted by Saudi Arabia's decision to use the slack demand and extra supply to bring the balance of

its production between its and heavy crudes more in line with its reserves.

The split of Saudi prices has changed from only 30 per cent heavy crudes to 100 per cent. The policy has had an adverse depressing effect on its put and has allowed be-

ducers like Iran, Saudi's action has been as an attempt to recoup supplies to create necessary conditions to December price rise; there is little evidence Opec members have real production for any other than lack of demand.

Looking now, December, the reality that the scope for a price rise is small without corresponding cut in prices. A 10 per cent could be too much to ask in widespread counting; 5 per cent would hardly seem worth making. It could be a stormy night.

The author is Energy Correspondent, The Times.

Saudi Arabia

Champion of developing world

by David Shirreff

Having gained its own seat on the International Monetary Fund board this month, Saudi Arabia joins the five countries thought most qualified to solve the world's financial problems — the United States, West Germany, Japan, the United Kingdom and France. It does so because it is now the second biggest lender to the IMF, after the United States, having pledged \$2,400m last year to the fund's special Witteren facility.

The Saudis are hardly likely to bring great fiscal experience and knowledge to the IMF. But their presence must lessen fears that the country's huge foreign assets (possibly as much as \$70,000m, invested mainly short-term in western economies, mainly in America), will suddenly be withdrawn or redistributed with dire consequences to world economic stability.

However, Saudi Arabia is also an Arab country and sees itself as the stronghold of Islam. If things came to a head, either in the Arab-Israeli conflict or in a confrontation between developing Islamic states and the industrial countries, consideration for western economic stability is likely to go out of the window.

Saudi moderation in the face of the more hawkish Opec members, pressing for oil price rises, and hostile Arab states seeking heavier sanctions against Israel, can only prevail while Saudi religious and ethnic principles are not threatened. This is an important factor to remember when talking of Saudi Arabia's financial power and its capacity to support the West's economic system.

For Saudi Arabia has also set itself up as a champion of the developing world, distributing a larger proportion of its gdp (more than 10 per cent) on foreign aid than any other country. Since 1975, besides direct government aid, it has committed more than \$1,500m in loans to developing countries in Arabia, Africa, South America and other Islamic regions, through the Saudi Fund for Development. Hundreds of millions of dollars a year are also spent on military support for its friendly neighbours, Egypt, Jordan, and North Yemen.

Generous though this aid is, it should not be regarded as mere generosity. Saudi Arabia is attempting to stabilize a region which is inherently unstable, as an insurance policy for its own development.

Its domestic development programme is its major concern. Being a poor country, apart from the one dominant oil resource, Saudi Arabia has decided that most of the revenue accrued from oil, now about \$50,000m a year, should be spent on developing its own economy. The emphasis of the second development plan (1975-80) was on creating basic services, and the third plan (1980-85) will concentrate on manufacturing, import substitution, and diversifying into heavy industries away from oil. This means enormous capital investment, and for the past two years the national budget has aimed to raise expenditure to the income from oil.

Saudi Arabia's purchasing power has made it one of the most attractive markets for capital goods, machinery, weapons, electronics, manpower and technology. Many western contractors now find themselves involved in vast contracts spanning several years, requiring support and often insurance from their own governments. Most Western countries have a vested interest in continued high expenditure by Saudi Arabia and this interest is well served by ever closer political alignment.

An inevitable side effect has been the development of a lively market in Saudi rials, as huge government



Work in progress in a steel rolling mill near Jiddah.

contracts are bid for, guaranteed, financed and finally paid for. Since the Saudi banking system is poorly capitalized and strictly controlled by the Saudi Arabian Monetary Agency, Saudi rials have been easier and cheaper to find outside the country.

In 1976 and 1977 a collection of nearly 40 offshore banking units grew up in Bahrain largely as an extension of the Saudi market. Against SAMA's wishes, a speculative market in rials also grew up, threatening to aggravate already significant fluctuations in lending rates for such a "thin" market as the rial.

With the slide in the value of the dollar putting pressure on the rial to revalue, SAMA finally acted in April to discourage speculative forward buying. It warned banks against such speculation, discouraged the off-shore syndication of loans and bond issues in rials and, in June, refused permission for Union des Banques Arabes et Françaises in Paris to arrange a 250m rials (\$75m) syndicated loan for Morocco. Reluctant to cross swords with SAMA, the offshore banks and other Saudi rial specialists have since refrained from public issues and syndications in rials.

But the biggest financial worry this year has been the falling dollar. It has meant an erosion, in terms of international buying power, of Saudi oil revenues and dollar assets in the United States. It has also strained the parity of the Saudi rial against other currencies, since the rial has never quite severed its ties with the dollar.

In 1975 the rial was officially pegged to the IMF's special drawing right but it tended to follow a middle course as the dollar fell. In July 1977 SAMA revalued the rial against the dollar for the first time in two years. In the following months there were another 15 minor revaluations raising the rial a total of 6.1 per cent against the dollar.

A full-blooded revaluation late last year or early this year might have prevented speculation in rials. But the Saudis had to think of their major debtors, the developing countries, and of the sudden increase in costs that a revaluation would have meant to their own development programmes.

Many believe that the rial must become more international, and that Saudi Arabia should open its domestic banking to foreign enterprise, allowing more than the present 10 foreign and joint-stock banks to operate freely.

The author is on the staff of the Middle East Economic Digest.

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Loans and Advances	2.588	2.122	Provisions	81	73
Investments	334	291	Deposits	3.595	2.968
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Contra Accounts	995	845	Contra Accounts	995	845
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Counting the cost of defying martial law in Teheran.

Iran

Authorities have contributed to business insecurity

by Nicholas Cumming-Bruce

Iranian politics was not, until recently, a subject of immediate interest to most of the western businessmen who have visited the country since the oil price rises of 1973. Whatever the uncertainties about Iran's long-term future, there were few evaluations of business and investment opportunities in Iran during that period which did not refer to the country's political stability. Now the seriousness of the challenge to the Shah's authority and the speed with which it has overtaken the country's affairs are forcing many firms to reappraise their prospects.

For many organizations, there may have been no real change in the facts of economic life that took them to Iran in the first place. But the inconclusive results of the recent visit by Mr Takeo Fukuda, the Japanese Prime Minister, point to the difficulties—on both sides of the negotiating table—of concluding business or setting up new deals in present circumstances.

Reports of a dramatic rise in the amounts of capital leaving Iran in recent weeks

also reflect the effect of the country's political turmoil on business life. Riots and martial law have injected a sense of insecurity into life. But the authorities have made their own contribution to insecurity in business affairs with the arrest of former ministers and businessmen, by detaining many more, and by the orders preventing others from leaving the country.

Moves to clean up business life would not be premature, but the feeling that they have been prompted by political expediency will not reassure those formerly associated with government and do not appear to have alleviated pressure from the opposition.

The appointment of a new Government in August, the second in a year, has also contributed to the uncertainties of economic life. By keeping certain important economic posts in the same hands, the Government appears to have signalled its intention of maintaining the previous government's economic and fiscal policies.

Mr Mohammed Yeganeh has been kept on as Minister of Economy and Finance and Mr Mohammed Reza Amin remains Minister of Industry. Mr Hassan Ali Mehryan, although owing to the job of director of the Plan and Budget Organization, is a former Central

Bank governor, who also served as Deputy Minister of Economy and Finance.

Some changes to the Government's economic programme are expected, however. Mr Shari' Emami, the Prime Minister, has spoken of the need to cur "shovecase" projects and the guidelines for the 1979-80 budget set out by Mr Jamshid Amouzegar, his predecessor, suggested that there was little cash in hand for more than those projects that had been already started.

No information is available on the new Government's intentions towards the sixth five-year plan, originally due to have come into effect with the start of the present Iranian year in March and by early state-ment of intent seems unlikely. Mr Yeganeh has already said that "the question of new economic policies is secondary, especially since the priority right now rests with the social and political problems of the nation".

These developments will exacerbate the problems of an economy already suffering a fall in its fortunes. Some economic indicators are healthy: Iran ended 1977-78 with a balance of payments surplus of \$1,900m; the Central Bank's foreign exchange holdings were reported as \$7,100m for the Iranian month

ended June 21; and total foreign exchange holdings are thought to be closer to \$10,000m. As an oil producer Iran is still able to command prime rates on its foreign borrowings, which are likely to exceed \$2,000m this year.

But economic growth has fallen off sharply. GNP last Iranian year rose only 2.8 per cent in real terms after a 7 per cent fall in the oil sector. The slowdown has given the Government more time to reorder its development plans after the frenzied activities of 1973-76. It has also helped in the efforts to curb inflation, which has dropped from 17 per cent in March to about 8 per cent in June-July. But the slowdown has also brought fears of stagnation and a concern on the part of the authorities to achieve faster growth.

Industrial growth was put at a healthy 9 per cent in the last Iranian year, despite the serious loss of production because of extensive power failures. But results for this sector have been uneven. Strong local demand has helped some industries, such as motor vehicles and food processing, to maintain rapid growth. But others such as textiles have fared badly, and traditional industries such as carpets—one of the few to generate significant export earnings—have also fallen into difficult-

ties. High labour costs, are undermining the ability of Iranian firms to compete without "protective" import tariffs and are not matched by high productivity.

Agriculture, although a priority sector, continues to lag behind the rest of the economy. Food production has not kept pace with demand increases, necessitating substantial expenditure in recent years on food imports.

There has been pressure on the Ministry of Agriculture to justify the substantial rise in its budgetary allocations, but decisions on major policy issues have yet to be taken.

But of particular concern to the planners must be the decline in private investment during the past Iranian year, just at the stage when the authorities are looking to the private sector to carry a greater share of the country's development costs.

Mr Amouzegar's Government worked hard to improve the climate of investment, notably by easing price controls on industry. But whatever its success, there will be little attraction in putting money into new ventures until critical political issues have been resolved.

The author is on the staff of the Middle East Economic Digest.

Rise in shares is result of confidence

continued from page VII
monetary statistics have already shown that the policy is beginning to work. There is now increasing confidence in the markets that the money supply growth is not exceeding objectives—indeed at present it appears to be undershooting.

It is still assumed that the rate of inflation will rise, but reasonable price stability seems assured for most of the rest of this year at least, and unless the Government's pay restraint programme slips farther than most observers believe it is felt that the return to double figures inflation next year could be short lived.

On that basis there is some optimism that interest rates could fall from their present levels.

The other important factor for the equity market is the outlook for corporate profits and liquidity. Recent evidence from company results suggests that 1978 started poorly, especially for companies heavily dependent upon exports or overseas profits which have been affected by the strength of the pound in the second half of last year. But disappointing first half results, which suggest negligible first half profit growth, have frequently been accompanied by indications that the second half looks better.

At home real living standards have been rising fast and the impact has been felt strongly in High Street spending. In some areas exports have been taking large market shares, and many United Kingdom manufacturers have so far

felt little benefit. But investment spending has been rising and the trend to higher corporate profits is unmistakable. Stockbrokers Phillips & Drew think that profits could now be growing at an annual rate of 20 per cent.

Meanwhile, company balance sheets remain profitable. The combination of profit recovery, relatively low investment and a series of rights issues over the past three years has reduced gearing ratios to their lowest for some time. During the past few months demand for bank finance has been picking up, but it is still not clear that the trend is strong.

In technical terms the present high degree of liquidity has meant that the pace of equity funding through the market has slackened appreciably to the benefit of share prices. Until this year rights issues had been satisfying a big proportion of the appetite of the institutions for ordinary shares, and with fewer new shares on offer institutional buying has been channelled progressively into the market.

One result has been that share prices have continued to be highly volatile. Between mid-July and mid-August, for example, the FT Index rose by more than 50 points, and then fell back by 30 points in eight days. Such is now the institutional dominance of the equity market and such is the tendency to follow similar investment philosophies that large price fluctuations now appear to be a permanent feature of the stock market.

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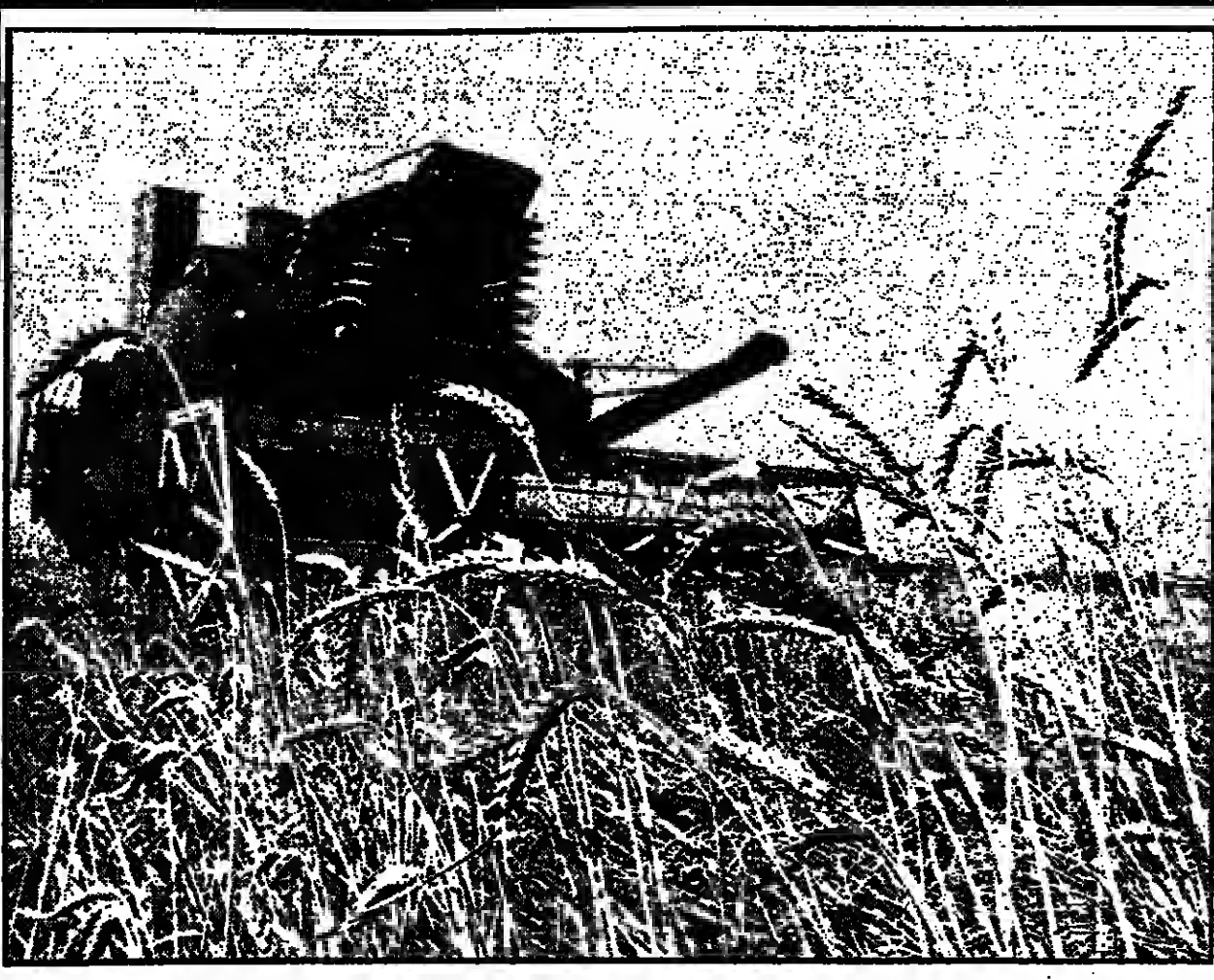
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A Russian combine harvester, of advanced design, at work near Rostov.

Soviet Union Growing shortage of energy

by Michael Binyon

The Soviet Union is half way through the present five year plan, and the performance of the economy over the past year is therefore a reasonably reliable indicator of how things will go in the next two years.

The results have been disappointing. The growth rate, though still respectable by Western standards, has slowed, and last year national income rose by only 3.5 per cent, the lowest increase since the Second World War. The modest 4 per cent growth target for 1978 is well below the 6 to 7 per cent typical of 1965-75, and the Soviet economy is falling increasingly behind that of the United States.

Figures for the first half of this year suggest that the Soviet Union is facing a

growing shortage of energy, hampered in its imports from the West by a shortage of hard currency, and is increasingly affected by the low productivity of its industry and the shortage of labour.

In 1977 industrial production is estimated to have increased by less than 5 per cent, and is planned to rise by only 4.5 per cent—the lowest for a generation—in 1978. This will probably set back the target dates for the present five-year plan by 12 to 18 months.

The officially reported increase in the value of all industrial production last year was 5.7 per cent. But a comparison of actual output with planned targets for major commodities suggests that the plan was not met, and the reported increase in the value of production included an element caused by unadmitted inflation, running at about 2 per cent.

Although the rise in output was a little better than in 1976, it was still one of the lowest since the war. The Soviet authorities have sought to present the decline in growth rates as part of a deliberate policy designed to improve efficiency and quality—the watchwords of all party economic policy—rather than maximize output.

They argue that this breathing space for technical reconstruction and modernization will in the end benefit the consumer. Western analysts however think this is more a case of making a virtue out of necessity, and that more valid reasons for the declining growth rates are the continuing inability of the construction sector to meet deadlines on new industrial projects, the need to divert resources for development in Siberia, local transport and fuel distribution problems, the wasteful use of materials, and above all falling productivity.

In the industrial sector the emphasis in the past year has been on getting things finished. Too often, it appears, grandiose projects are started with a burst of enthusiasm and money, then run out of steam. The focus shifts, workers are moved elsewhere and factories, power plants and so on

Farm production fell well below target

Indeed last year gross agricultural production was almost 3,000m rbl below target. The grain harvest was 18 million tonnes short because of poor weather and a summer drought in Kazakhstan. And the failure to produce enough fertilizers or spare parts for farm machinery also contributed to the shortage.

Things look better this year. American experts who come over regularly to inspect the grain harvest to get an idea of probable Soviet imports, estimate a harvest of 220 million tonnes.

Even after allowing for drying and weeds, this would still yield about 185 million tonnes of usable grain. This could mean that the livestock herds will be all right this year. The Russians, who are already short of meat in many provincial cities, seem to be gambling on a large slaughter this year, far so far they have not imported any meat from traditional

suppliers such as Australia and Argentina.

Agriculture continues to be the Achilles' heel of the Soviet economy. The problem last year, as in every year, is largely that the labour force is old, female and poorly educated. This means that factory workers and the army have to be mobilized for the harvest, with consequent disruptions to industrial production.

Last year's figures suggested that the Russians have been reining in their imports from the West, to correct the large debt that has built up in East-West trade. In 1977 the Soviet deficit was converted into a small surplus. However, there is evidence that in the second half of the year imports from the West began rising again, as the Soviet debt has risen to \$2,500m in the first six months of this year (reflecting purchases made earlier).

A large trade debt with the West should not worry the Russians with their large resources of gold and other valuable raw materials. But this year they are again slow to buy from the West, possibly because they are waiting to see the harvest results and to find out how much hard currency they will have to spend on grain imports.

The rest, about 60 per cent, is trade with Eastern Europe and other members of Comecon. Within this sector the Russians saw their share of imports from Eastern Europe rise last year. The Soviet leadership is proceeding with plans to integrate and develop specialization among the East European trading partners.

The Soviet economy last year continued to perform sluggishly. A summer of long-term problems loomed closer on the horizon—the need for economic reforms to increase productivity, the need for capital and labour to develop Siberia, the increasing shortage of extractable oil and a critical manpower shortage.

The Soviet leadership, clearly concerned, still has not given any indication that it is prepared for the radical shake-up. The outlook for the rest of the five year plan is not encouraging.

Comecon

Coordination still unrealized

by Kurt Weisskopf

Foreign trade reform and the quest for oil have been the main features of economic development in the Comecon countries during the past 12 months. But performance has been lack-lustre. Both problems are interrelated and remain unresolved.

At the end of June Comecon prime ministers and their retinues, which included planning chiefs and some key economic ministers, met in Bucharest for their thirty-second regular annual session and were unable to report much progress in economic integration. Their five-point plan proposed at the thirteenth session in Berlin in July, 1976, for close cooperation by 1990 was merely an expression of good intentions; not a directive for action. It covered raw materials, fuel and power; agriculture and food production; production of consumer goods and the modernization and expansion of public services. It was reaffirmed at the thirty-first session in Warsaw in June, 1977.

Soviet Union, Yugoslavia, Adriatic pipeline, should provide some oil to both Hungary and Czechoslovakia. Poland is expanding oil port facilities at Gdynia, as is East Germany. Russia, but non-Soviet oil has to be paid for in convertible currency.

Nor is oil the only item to be bought. The Comecon countries, even the highly proficient East Germany, still need Western high technology. The gap between them and the West has been widening. Meanwhile, profitably not with full justification, their credit rating has deteriorated. Rationally most of them, particularly Hungary and Czechoslovakia, and East Germany should be good to very good risks.

Two years have passed yet the long-term programme for coordination which ought to be Comecon's *raison d'être* is still a vague scheme. But a measure of cooperation is important to them; so the prime ministers agreed to approve the principles of the first three target programmes and committed themselves to complete drafts for their implementation by the end of 1979.

This leaves the Comecon countries where they have been for the past three years. Economically they have to fend for themselves to a much greater extent than up to the beginning of 1976 when their current five-year plans started. The days of cheap and ample raw materials from the Soviet Union are over.

Counter-trade as a substitute for credits has no really proved an alternative. There have been a few spectacular and widely reported deals such as Toyota's and Mitsui's contract for the construction of an aromatic plant at Schwedt and Citron's successful bid for a front-wheel transmission plant at Zwickau, both in East Germany. But more generally Western attitudes in counter-trade have been cool. By and large the range of products Comecon countries have to offer on a counter-trade basis is limited, and Comecon negotiating techniques to cumbersome and slow that the good initially offered could be obsolete long before they are even talk of a contract.

On economic and political grounds the Soviet Union will not let its Comecon partners drift altogether. The Orenburg gas pipeline built as a joint project will come on stream in 1980 and provide them with adequate quantities of natural gas, and their longer-term energy supplies will be buttressed by the construction of several nuclear power stations, all of the conventional pressurized water type, in the western Ukraine and perhaps in Byelorussia which will feed electricity into the Comecon grid. But so far not even the sites have been chosen for any of them, so it is improbable that they will be on line before the middle or late 1980s.

It seems that the Comecon countries are aware of their problem which is inherent in their foreign trade structure giving foreign trade corporations acting on behalf of the foreign trade monopoly, pre dominance over manufacturers. Hence during the past 12 months there have been important moves to reform foreign trade methods: with the Hungarian as one often, in the lead ahead of the East Germans.

In Hungary several manufacturing complexes have been vested with foreign trade rights. But the latest proposals include joint venture companies to be set up with the Hungarian foreign trade corporations and manufacturing enterprises. Eventually it is intended that the foreign trade corporations should share profits and risks with manufacturing enterprises and not simply act as their agents.

The difficulties could hardly have come as a surprise. Herr Detlev Carsten Rohwedder, West German Secretary of State in the Economics Ministry, disclosed at a press conference in Leipzig last September that Mr. Alexei Manchuk, Soviet Deputy Minister of Foreign Trade, had told him during talks in Moscow the Comecon countries would no longer be able to rely fully on Soviet economic backing. It seems Mr. Manchuk had indicated that they would have to increase their dealings with the West.

But oil is more essential than ever for the Comecon countries. Petrochemical capacities and production of synthetic fertilizers are important, items among their economic priorities and construction of industrial installations is well advanced.

East Germany in particular has undertaken a supply oil purification plant to the Soviet Union against crude oil shipments. Similarly Czechoslovakia has just signed a pact on the delivery of gas and oil pipeline and pumping installations to the

It is hoped that this will increase the flexibility of Hungarian enterprises on convertible currency markets and improve export chances. It would be an exaggeration that the foreign trade monopoly is now in tatters. But while in the past the foreign trade corporations and their adjuncts were guiding the export production of the manufacturing enterprises, henceforth their function is intended to be coordination.

While the Hungarian approach to the reorganization of foreign trade activities has been organic, the East German reform is largely institutional. Manufacturing enterprises are being amalgamated into so-called *Kombinate*, perhaps best translated as trusts or concerns. They represent a merger under a single management of enterprises producing a specific group of products or interrelated groups. The East German authorities expect—and their expectations have never been known to remain unrequited—that by the end of 1979 most if not all industrial enterprises will have been absorbed by *Kombinate*.

The author is editor of Eastern Europe bulletin published by the London Chamber of Commerce and Industry.

Scandinavia

Some success in restoring economies

by Geoffrey Smith

This has been the year when things have not gone so badly in Scandinavia as they might have done. Twelve months ago it seemed that the Scandinavian economic miracle had turned sour.

The prosperity and exceedingly high standards of living that these countries had enjoyed for years had bred complacency habits: a readiness to accumulate massive burdens of foreign debt rather than cut back consumption when the balance of payments got into difficulties; weak defences against inflation; and possibly a tendency to take things a bit too easily. With the obvious exception of Norwegian oil, the miraculous Scandinavian economies were becoming distinctly less competitive.

generally depressing international trading scene.

In this year Sweden caused the most unease, not because its plight was worst but because of the sense of shock that it was in any serious economic plight at all. After successive devaluations last year it has this year curbed its rate of inflation. The round of wage settlements earlier in the year was reasonably encouraging and the level of orders for industry has been improving.

This does not mean that the Swedish economic crisis is over. The level of unemployment is high by Swedish standards: at 2.7 per cent in August. It was at the highest point for six years. There is also a good deal of concealed unemployment—though that is not a new development in Sweden—without any immediate prospect of improvement. That is largely the result of the Government's austerity programme, which has had a severe effect upon capital investment.

But it has also had more desirable consequences. It has improved the balance of payments. There is a great mood of confidence that

there was a year ago and a feeling that the country has been prepared to face its difficulties realistically.

Finland is the country that a little while ago seemed to be facing the most intractable economic problems because it had such a high rate of inflation, such an enormous burden of foreign debt and so many of its companies were not equipped for exporting. This meant that unless there was an unexpected rate of advance in international trade and in Europe in particular, there was no immediate prospect of recovery.

However, a combination of devaluations, which between them reduced the value of the Finnish mark by 16 per cent, and restrictive monetary and fiscal policies, especially earlier in the year, have brought about a partial improvement. The balance of payments is in surplus and the rate of inflation has been sharply reduced, even though the level of unemployment is disturbingly high. A determined policy has been pursued in the effort to secure a greater measure of com-

petitiveness for Finnish industry.

For years Denmark has had a conspicuously high standard of living, rapid inflation, a chronic balance of payments problem, a weak currency and an inexorably rising burden of foreign debt. This position has not changed substantially in the course of the past year. Both inflation and unemployment are in double figures. There will be another massive payments deficit this year, although it is not expected to be quite as large as last year; and most Danes continue to enjoy their enviable standard of living.

The one change of significance is political, although it may have an important bearing on economic developments. At the end of August the Liberals joined the Social Democrats in government to form the strongest administration, at least on paper, that Denmark has had for some years.

This means that Denmark should at last have a government with the political strength to put through the austerity programme that the country has long needed and that other Scandinavian

countries have imposed on themselves this year. The question that remains is whether even this government will be strong enough to impose its will over the objections of the trade unions.

Norway is in a special position because of its oil, but this has had both favourable and unfavourable effects. It has provided the security for Norway to accumulate a massive burden of foreign debt as an act of deliberate policy. But it has also led to wage costs soaring, with disturbing effects on other industries and on the rate of inflation in general.

It was for this reason that on September 15 the Government announced a wage and price freeze to last until the end of next year. It is estimated that this draconian measure should cut the rate of inflation from about 8 per cent. It should also help to improve the international competitiveness of Norway's non-oil industries which has been severely impaired.

But much will depend upon whether the Government can maintain such a restrictive policy for such a length of time.

Australia

Tough budget is attempt to push inflation rate down

by Robert Gottlieb

Mr Malcolm Fraser, the Australian Prime Minister, has set as his target the 3 to 4 per cent inflation rate of Japan and Germany. Yet there are doubts whether he can achieve this without considerable domestic problems including further rises in unemployment.

For the year ended June 30, 1976, the rate of inflation in consumer prices was 12.6 per cent; in 1977-78 it was 7.9 per cent and the Government is hoping for a 6 per cent rate in 1978-79.

The Government has attempted to achieve this 6 per cent rate through a harsh budget restricting consumer spending. It will result in further unemployment.

As the inflation rate falls, however, the Australian currency is looking stronger and, since the budget, the share market has risen strongly, reflecting investment from abroad. But, while the share market booms, the economy remains depressed. The trade unions, which in better trading times established a world reputation for militancy, are gradually being brought to heel by the total of 393,000 unemployed.

This could rise to about 500,000 out of a workforce of some six million.

Nevertheless, the unions have not entirely dropped their militancy and the level of industrial disputes is not likely to fall. There is a vigorous dispute between the main Australian wage-



One of the most likely areas for substantial improvement in Australia is in rural products such as wool, and this is expected to contribute well to a 40 per cent rise in farm incomes.

fixing authority, the Arbitration Commission, and the Government. The Government wants the commission to be tougher in the awards it hands down.

This dispute is symptomatic of a national division over the cost to the economy of the anti-inflationary policy. Only a prime minister with Mr Fraser's majority in Parliament would have been able to maintain such a strong line.

The Government believes that if it brings inflation and interest rates down it will help a number of large projects and enable many companies to re-enter the export trade. Probably the most promising area in secondary industry is the development of large plants to take advantage of Australian power costs. An example is the CRA-Kaiser-owned Comalco's decision to build an aluminium plant at Gladstone, Queensland.

Meanwhile, Australia's gross domestic product expressed in 1974-75 prices rose by only 1.4 per cent in 1977-78, well below the 4 per cent of the previous year.

For the first time for years, while exports rose to \$538m, there was a fall in stocks so that exports did not contribute to the growth in gdp. One of the principal growth areas was private building and construction and plant and equipment.

There have been a number of important cost-mixing projects, but probably most of the growth came from the chemical industry and the large number of retail shopping centres in the suburbs of Australian state capitals. Another important factor has been the widespread investment by Australian companies in installing plant to reduce labour and produce more efficiently.

This year the Government expects a growth rate of 4 per cent, but this would appear optimistic. The most likely area for substantial improvement is in rural products, where production of wheat, coarse grains, beef and wool are all likely to contribute well to an expected 40 per cent rise in farm incomes.

The farming recovery could not have come at a better time, for 1978-79 does not appear likely to be profitable in mining, from ore exports are slack as the Japanese move to cut back both the quantity of ore purchased and its price.

Australia is paying a high price, too, for heavy dependence on the Japanese. The iron ore exporters are working hard to find new markets; the most promising one appears to be China. Coal is also being affected by the Japanese cutbacks, but not to the same extent. One of the strongest remaining mineral exports is alumina and aluminium.

A year ago it was hoped that Australia would have been much closer to signing uranium export contracts and have the Northern Territory projects working. Considerable problems, however, had been met in reconciling mining plans with those of the Aboriginal community.

A vocal but nevertheless substantial section of Australians oppose uranium mining and development will not be easy. In Western Australia, Western Mining has signed an agreement which effectively enables it to have a 75 per cent interest in a uranium mine at no cost.

This deal indicates the sort of impact Australian uranium exports could have on both the national economy and the world uranium market. Australia has been moving to world oil prices gradually and in the latest budget the Government imposed taxes to price oil at world parity leaving intact the substantial revenues made by Esso and Broken Hill Proprietary, Australia's main oil producers.

Two of the most depressed sectors of the Australian economy have been motor vehicles and the building industry.

The Government has cut sales tax on cars and allowed more loans for housing. The sales tax on cars will help demand although the Australian industry has problems reflecting the fact that most of the world's motor makers have plants 'down under'.

The building industry's main hope for recovery is that the Government's strategy will work. Meanwhile, it faces a tough time and in the year ahead Canberra is banking on its anti-inflationary policy to attract overseas investment to help to lower interest rates.

The author is on the staff of the Australian Financial Review.

Canada

Bonn mots persuade Mr Trudeau to turn right

by John Best

The Bonn summit in July marked a decisive turning point for Canada. Mr Pierre Trudeau, the Prime Minister, came back from the conference determined to change the country's economic direction to hard right.

Just what influenced Mr Trudeau at the summit would be hard to define. Whatever it was, it was reinforced apparently by three days of intensive discussions he had immediately afterwards with the West German Chancellor, Herr Helmut Schmidt. Herr Schmidt is a Social Democrat through and through, but he knows enough to allow West German business plenty of elbow room.

In any event within a day or so of his return to Ottawa, Mr Trudeau placed on television to tell the Canadian people that his Government had decided to cut \$2,000m from its spending estimates.

Later, Mr Robert Andras, president of the Treasury Board, placed the cut in spending at \$2,500m and said it would result in the dismissal of up to 5,000 civil servants.

"We are making a definite effort to get off the backs

of the people and give the private sector room to manoeuvre", Mr Andras said. Such statements indicate a remarkable change in government philosophy. Less than three years ago, Mr Trudeau caused an uproar in business circles by musing publicly about the need for greater government intervention in the economy.

There is no doubt that the economy is in need of some stiff medicine. Growth has been slow for some time, unemployment is above 8 per cent and may be up to 10 per cent again this winter, and inflation seems beyond anybody's ability to bring under proper control. It was last reported to be running at 9.4 per cent annually.

Concern about a possible fall in the American economy, to which the Canadian economy is closely tied, accompanied by an increase in the American inflation rate, adds to the bleak picture.

The fact that a separatist Government is in power in Quebec—pledged to bring about the independence of that French-speaking, central province, the second largest province in Canada—is a further depressing element.

It is difficult to quantify this. The situation in Quebec has stabilized since the some-

what ominous period immediately after the election of the Parti Québécois Government in 1976, and the number of English-speaking people leaving the province has probably fallen. This undoubtedly has something to do with the fact that the pro-federalist Liberal Party, which previously formed the government, has a vigorous new leader in former newspaper publisher Mr Claude Ryan, and is rated at least an even bet to regain power after the next election in 1980.

Before then, however, a referendum on independence is due to be held and the tempest that the referendum campaign is sure to cause could adversely affect the economic climate. As it is, unemployment is higher and business expansion slower in Quebec than in most of Canada; but this is nothing new.

Canada's contribution to the economic-revival package agreed upon by heads of government at the Bonn summit was a commitment to achieve real growth of 5 per cent this year. This amounted to no more than a reiteration of the goal which the Government had already set for 1978.

Most economists consider it extremely doubtful that

the country will come anywhere near reaching the target, which is the bare minimum required to stop unemployment getting worse this winter than last, when it reached one million.

The gross national product grew by 1.1 per cent in real terms in the second quarter to \$230,000m seasonally-adjusted at an annual rate. This was better than the 0.7 per cent increase recorded in the first quarter; but a much greater surge will be required in the third and fourth quarters if the Government's target is to be achieved. Independent business and research groups have projected growth for the year in the 3.5 per cent range. Last year gnp grew by a mere 2.8 per cent.

The thing that has perhaps been hurting the Government most in its efforts to revive the economy is the uncertain attitude of business. It is to rekindle the confidence of business, and thereby spur investment and other forms of risk-taking, that the Government has now moved to reduce spending and actually lay off a large number of civil servants.

One direct effect is likely to be a reduction in the size of this fiscal year's budgetary deficit, which as things were going is likely to reach

\$12,000m or more. For a country of 24 million people this is enormous, greater than the entire federal spending when Mr Trudeau assumed power 10 years ago.

How business responds to the new government initiative is nevertheless a matter for conjecture. The immediate reaction was not entirely favourable; not so much because of the nature of the Government's proposals but because of the clumsy way in which they were presented to the public.

The Government made the mistake of failing to spell out its intentions clearly, and also as one point of rolling some fairly fundamental changes in social security programmes in which the private sector has a share up the Canadian economy.

At a press conference Mr Jean Chrétien, who took over as Finance Minister a year ago, failed to provide either replies to questions about the effect of some massive redirection of government spending.

The result was widespread confusion and much grumbling on the part of both the public and the business community. Hardly an auspicious beginning for the Government's new look economic strategy.

Southern Africa

Out of recessionary woods but still in shadows

by Ray Kennedy

When the price of gold went through the \$200 barrier there was happy speculation in South Africa that tax cuts were near. Earnings from gold would be about \$2,500m (\$2,100m) this year, \$700m more than in 1977 which was the best year so far.

More than \$1,000m have been added to the value of gold shares on the Johannesburg Stock Exchange this year. South Africans have had every reason to believe that the economy was emerging from its three-year recession and that they could expect a share of the cake.

In the face of the economic facts it has not taken long for the excitement to die down. Although South Africa may be emerging from the recessionary woods there is some way to go before the trees are left behind.

The trouble, as Mr Vorster, the retiring Prime Minister, pointed out to a consumer congress in Pretoria last month, is that it is doubtful whether South Africa can attract sufficient foreign capital to raise economic growth above the 3 per cent expected this year.

Almost every economic survey, including the official economic development programme, has said that a growth rate of about double will be needed to find jobs for new labour coming on to the market, let alone make any inroad on the existing level of unemployment.

Unemployment is one of the most serious problems bedeviling the South African scene. The Department of Statistics says that black unemployment in February was 559,000 but private sector economists consider this is an understatement. Some studies put the figure at more than two million—about 14 per cent of the black population economically active.

Traditionally South Africa is a capital importing country. Mr Owen Horwood, the Finance Minister, admits that recently it has become a capital exporting country in respect of short-term funds, partly because of substantial amounts being repaid on foreign loans. Although long-term capital is still coming in, it is at a diminished level.

Without capital there can be little growth and without growth there will be more joblessness which is certainly not a climate in which the Government can consider basic tax cuts.

Mr Vorster's acceptance of a 3 per cent rise in economic growth this year contrasts sharply with the 1974-79 economic development programme which stated: "If the aim is not merely to keep the number of unemployed blacks constant but actually to decrease this figure, the real gdp will have to grow at a considerably faster rate than 6 per cent a year."

The other major problem facing South Africa's economic planners is the rand currency's link with the American dollar at a fixed rate of \$1=\$1.15. This means that the rand has been tumbling against other currencies including the pound and this has added to the price of imports.

The economic debate over rand rate policy is one of the most serious bedeviling South African economic planning. The 17.5 per cent devaluation in 1975 hit the economy hard at a time when exports were falling,

and imports increasing; more important at a time when gold-mining costs were soaring in excess of more than 12 per cent a year.

Although there is a need to increase the net foreign capital inflow devaluation of the rand is probably not the right way to do it.

The South African economy is at a crossroad. It needs to expand but must have the foreign capital infusion to keep going. It can do so only if foreign confidence in the domestic scene improves.

Mr Harry Oppenheimer, chairman of Anglo American Corporation, pointed out in his recent review of the

group's activities, that it is not for moral reasons that money has not flowed from overseas into South Africa, but because of possible political instability. He maintained that political anxieties have a greater effect when a country is in recession and that the need now, in South Africa's case, is for a renewed flow of investment funds from overseas on a large scale.

But if South Africa remains in the economic doldrums, the outlook for neighbouring Rhodesia and Zambia, farther north, is much worse. South Africans blame Zambia's economic mess on its border closure

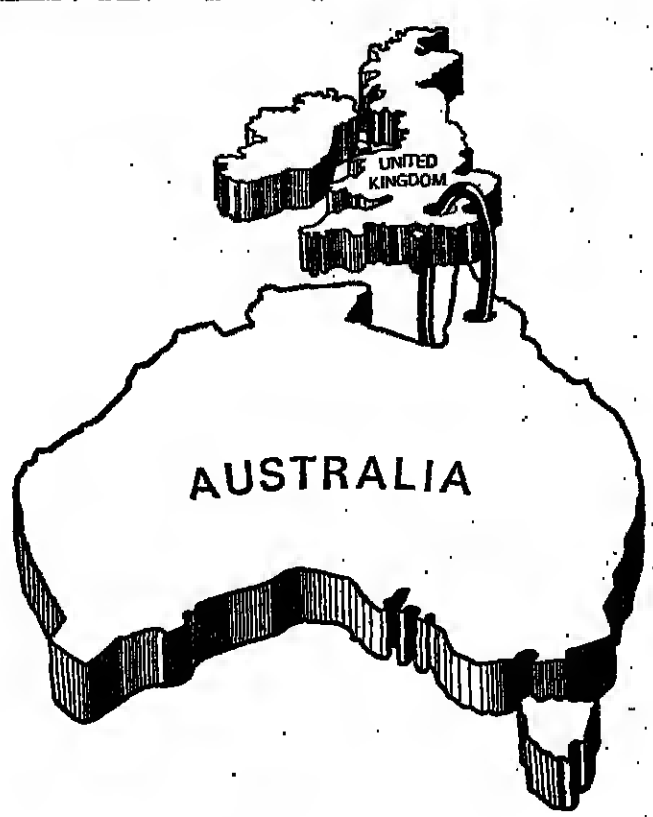
with Rhodesia and it is one of the economic ironies of present day Southern Africa that copper cargoes from Zambia are finding their way to South Africa for export while Zambia itself is still enforcing a *force majeure* on shipments.

The Zairean copper cargoes rumble through Zambia and Rhodesia bound for the South African port of East London while Zambian copper stands still. And nobody ever suggested that President Mobutu was an economic expert.

One only has to take in the number of distinctive Rhodesian number plates on cars on Johannesburg's

streets to realize that the flight of whites is rapidly getting to the size of that from Mozambique and Angola before the collapse of Portuguese colonialism.

Like South Africa, Rhodesia is paying "through the nose" for its defensive posture. But unlike South Africa it is no longer a case of butter or bullets in Salisbury. Both commodities are running out. For white Southern Africa the message is now writ large. Significant changes will be required before Western trading partners, sitting on their investments but not expanding them, will extend their risk.



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China

Excessive imports may lead to huge debts by 1980

by David Bonavia

Financially this has been China's most adventurous year since 1972. The carrying out of the "Four Modernizations" programme announced by the late Chou En-lai more than three years ago, when he was Prime Minister, now seems to be really under way.

So far this has been mainly a year of searching for the best ways to modernize an advanced industrial society which China hopes to become by the end of the century, but it cannot be long before the orders start rolling in.

A more active import policy by China is almost certain to mean a bigger role for the Western banking community, both in putting together the funds which China needs to buy its new hardware and in finding ways to make this politically acceptable.

Only in the peculiarly ambiguous context of Chinese politics could this development be seen both as a negation and a continuation of the policies of the late Mao Tse-tung, who died nearly two years ago.

His successors have resurrected a speech he made in 1956, recommending special attention for established large industries in coastal areas as the only basis on which industrial development could later be spread more evenly round the country.

The fact that Mao later seemed to reverse this view has not deterred the present leadership from taking it as the foundation for a big programme of advanced industrial development which must of necessity be concentrated on large established industries and not on the rural workshops to which Mao later attached so much importance.

Mao, to be sure, saw the need for attention to certain advanced sectors such as aviation and nuclear power, regardless of the political deviation implied. But the small group of "radical" theorists around him tried hard to resist any wider Chinese commitment to the technology of the advanced world. An abusive political campaign which they carried on in 1974-75 had many people wondering whether China would ever become a

main importer of industrial plant. Nevertheless, the deals completed earlier when Chou En-lai and his supporters had more political sway went ahead, though mostly behind schedule and with severe difficulties of communication between Chinese and foreign engineers. Now the Government is preparing to send huge numbers of students abroad, to ensure that in future the explanation of blueprints will not cause so much difficulty.

It was particularly gratifying for Britain that the Chinese gave such good reception to Mr Edmund Dell, the trade secretary, when he went there in August, often predicting a massive increase in Anglo-Chinese trade in the next few years. But as Mr Dell well knows, this is a two-way process, and Chinese goods will towards Britain will be shown in import deals only if British suppliers can show competitive prices.

Britain's interest in a bigger share of the Chinese market should be particularly keen, now that it may become linked with three-way deals to speed development of Hongkong and its economic links with the mainland. A leveraged service up the Pearl River to Canton, small trade fairs just across the border, blunderships to capitalist Chinese businessmen to invest in mainland industry, and a possible joint electricity-generating deal may all be seen as China's way of showing it has no intention of trying to strangle Hongkong in the near future.

There is, however, a slightly less optimistic school of thought in Hongkong now. For the first time Chinese officials have begun talking openly about the expiry of the territory's lease in 1997.

The tone is cheerful: "Make your money while you can, you still have nearly 20 years to go." But many people interested in the long-term future of Hongkong had been hoping to get some stronger indication by now that the Chinese Government would seek some subtle way round the lease expiry and just let Hongkong keep on going in the interests of all concerned.

Now there is mild concern that Peking may be so intoxi-

cated with its own prospects of modernization, through oil and coal exports and technology imports, that it might see some possibility of reabsorbing Hongkong in 19 years.

This is almost certainly unrealistic, but some people are speculating over China's recent purchases of land for industrial and real estate purposes in Hongkong. If this is the beginning of a gradual absorption policy, there will be a genuine crisis of confidence in the mid-1980s among international investors.

The Peking-Hongkong relationship reflects the degree of realism prevailing in Peking about the economic future. With a population still increasing every year by more than that of the whole of Australia, an agriculture showing little chance of keeping pace and the likelihood of massive debts by 1980 through excessive imports, China's financial future is not as bright as might have been assumed last year when people were still wildly excited at the downfall of the radicals.

Nevertheless, with foreign trade likely to reach \$25,000m this year, buyers swarming over Britain's factories and arms plants, and the Chinese more cheery and relaxed than they have been for 12 years, it would seem churlish to pour too much cold water on their optimism at this stage.

What most worries thoughtful students of Chinese affairs is whether the social structure, with a large peasantry, a modest workforce, and an intelligentsia once more enjoying privileges which brought it the anger and contempt of a whole generation of Chinese youth in the 1960s, may not hold bigger problems than appear on the surface.

From the Western businessman's point of view, however, the lesson of East Europe has been that as communist governments get into deeper trouble and no longer see so much virtue in internal repression, they turn increasingly to the capitalist world to bail them out. In China's case the implications of a long-term economic relationship with the west are too interesting to justify great pessimism.



Agriculture has little chance of keeping pace with a population that increases every year by more than that of the whole of Australia.

South-east Asia

ASEAN sets seal on future economic cooperation

by Ranjit Gill

For the countries of the Association of South-east Asia Nations (ASEAN) 1978 will probably be remembered as the year in which the seal on future cooperation in economic matters was set.

Just as important, the year has shaped and set in motion the financial policies that individual countries are likely to pursue over the next five years.

One development in particular highlighted the different levels of economic development that exist among the ASEAN partners. Singapore managed, after a year's negotiations, to persuade the IMF that the small city-state does deserve to be classified as a developing country at present. It argued that though officially the per capita income has risen to more than \$2,500, in reality, after allowing for the high level incomes of non-residents and expatriates, it was less than \$2,000.

Singapore's rejection of the IMF's recognition of the republic's successful economic policies means that it will still be able to obtain soft loans and have its exports treated favourably. Also it will enjoy part of the proceeds from gold sales by the IMF which in turn is intended to be doled out as assistance for the high level incomes of non-residents and expatriates, it was less than \$2,000.

poverty. At the other end of the scale, Singapore's neighbours, Indonesia and Thailand, recorded per capita incomes of less than \$500 and \$800 respectively.

In between these extremes is Malaysia, the one ASEAN country that appears exceptionally well-endowed with all the ingredients that inevitably ensure economic prosperity. High prices for its rubber, tin and palm oil, and the increased production of crude oil at present running at 200,000 barrels a day, enabled it to have a balance of payments surplus of more than \$2,000m last year.

This year, however, the outlook is less rosy. Oil palm prices have dropped, and rubber production has stalled at about 1976's output, and imports are rising in comparison against exports. Signs are that Malaysia would be fortunate to record a balance of payment of between \$800m and \$1,000m this year.

New manufacturing projects approved by the Government in 1977 numbered 400, down from 425 in 1976 and 461 in 1975. The called-up capital for these projects dropped from \$M458m in 1976 to \$M357m in 1977.

This trend, which is causing the authorities some anxiety, appears to have continued during the first five months of this year. Approval was given for 117 new manufacturing projects with a paid-up capital of \$M132m, marginally lower than for the same period in 1977.

New investment and plant expansion applications, however, have increased from an average of 36 a month in 1977 to nearly 39 this year. According to the IMF, a projected stagnation in Indonesian oil revenue, which totalled \$4,500m in 1977, could severely constrain the country's development spending.

It is predicted that the levelling-off of oil revenue, the result of reduced offshore oil exploration since 1975, and a drop in production to 1,600,000 barrels a day will put new pressures on the authorities to mobilize more public funds from non-oil sources for development projects.

In 1977 Indonesia enjoyed a real growth of between 7 per cent and 8 per cent led by gains in exports. It also enjoyed a balance of payments surplus of \$648m for the fiscal year 1977-78. Inflation was held down at about 10 per cent. Rice production in Indonesia remained at about 1976 levels, at 15,800,000 tons, below the targeted 17,200,000 tons, consequently Indonesia imported 2,200,000 tons of rice, and is expected to repeat such imports this year.

The growth of commercial bank credit to state enter-

prises in Indonesia slowed to 12 per cent in 1977 from 29 per cent a year earlier while the growth of credit to the private sector slowed from 26 per cent to 19 per cent.

Indonesia's total external debt, excluding certain debts from Pertamina, the state oil corporation, reached \$11,500m at the end of last year, up by \$1,300m from the previous year.

ASEAN's northernmost partner, Thailand, is presently going through a critical diplomatic phase in its efforts to reestablish ties with Vietnam and other Indo-Chinese neighbours, is looking to 1978 to signal a turn-around from three economically depressing years since the oil crisis.

With imports outstripping exports last year, the country suffered for the first time a deficit of about \$1,000m. The balance of payments also plunged to a record deficit of about \$250m. The country's gross domestic product declined from 8.2 per cent in 1976 to 6.2 per cent last year.

The consumer index was up to an average 8 per cent—almost double the 4.2 per cent rate in 1976. Thailand's increased oil bill, which last year stood at \$1,400m, representing 22 per cent of the value of all imports, is blamed for the disappointing economic performance. Previously the nation's oil bill totalled 4 per cent of its total imports.

Considerable quantities of natural gas have been discovered in the Gulf of Thailand and a multi-million dollar pipeline is being built to pipe the gas ashore. By 1983 Thailand expects to save some \$800m on its energy bill, then projected to rise to \$1,500m annually.

The authorities are banking on increased agricultural exports to compensate for a drop in other commodities—a net overall increase of 0.3 per cent in export value over last year's figure of \$3,500m.

The Philippines is aiming for a 13 per cent increase in its gross national product this year to reach \$23,800m. A 5 per cent to 10 per cent increase in exports, which is estimated at between \$2,500m and \$3,000m for last year, is being aimed at. Manufactured exports are expected to account for \$900m this year.

An annual growth in gnp of 6 per cent in real terms for the next five years has been targeted. Last year it was 6 per cent. Total foreign investment in 1977 reached \$138m compared to \$118m in 1976.

For Singapore, ASEAN's success story, three sets of figures tell the story. Exports increased in 1977 by 24 per cent to \$8,300m. The gross domestic product rose by 7.8 per cent to \$3,830m, and total foreign reserves stood at \$3,720m.

North and South Korea

Market rivalry between two nations is abandoned

by Simon Scott Plummer

Tragically embroiled in the struggle between communism and the West the Korean peninsula has split into two distinct societies held rigorously apart by force of arms. Comparisons of economic performance on either side of the 38th Parallel should be treated with caution: whereas the South issues full and reliable statistics, those from the North are fragmentary and apparently selected for propaganda purposes.

Partition at the end of the Second World War left one side (the North) with most of the heavy industry and mineral resources and the other with the bulk of light industry and agriculture. Each has tried to remedy deficiencies. Agriculture in the North is highly mechanized and makes great use of fertilizer while heavy industry in the South has broken into world markets with its steel, ships and machinery.

The North continues to enjoy superiority in minerals, including coal, iron ore, lead, zinc, tungsten, manganese, and is far less dependent on fuel imports than the South. It also produces a wider variety of military equipment than its rival, though the latter tends to close this gap by the early 1980s.

South Korea's main achievement has been economic growth. The latest estimates of comparative performance show that its gross national product more than tripled between 1965 and 1976 to \$21,613m (in 1975 prices) and its per capita gnp rose from \$245 to \$605. GNP in the North more than doubled to \$10,000m and per capita gnp went up from \$375 to \$580. By 1981, the figures for the South (again in 1975 prices) are expected to be \$34,000m and \$875, and for the North \$13,000m and \$650.

In a new year speech on January 18 at Incheon, Park Chung-hee of South Korea said: "In terms of economy the competition is already over... we are at least 10 to 15 years ahead... In 10 to 15 years more our Republic of Korea will become a major economic power."

It is believed that President Kim Il-sung of North Korea has abandoned the idea of direct economic competition with the South since the dismal failure of the last six-year plan (1971-76).

Apparently impressed by progress in the South, as reported by North Korean negotiators who visited Seoul for reunification talks in 1977, the President ordered large quantities of machinery and equipment from Japan and Western Europe. These purchases coincided with a worsening market for North Korea's exports, including iron ore and textiles, and steep rises in its oil import bill.

By the end of 1976 North Korea had accumulated an estimated \$2,400m worth of foreign debt, about 25 per cent of gnp. Of this, \$1,400m was owed to Japan and the West, and the rest to the communist world, mainly the Soviet Union. Pyongyang started to

default on debt payments in 1975, supposedly the first communist country to do so, since when imports have been cut and debts rescheduled.

Launching of the new development plan was postponed while the North took stock of a disastrous situation. Big changes, particularly in the economic sphere, were made in the Government last December. The new plan (1978-84) projects slower growth than in the past and in many cases its targets are believed to be equal or below those originally proposed for 1974. Nevertheless, some outside observers doubt whether they can be met with regard to electric power, steel and cement and feel that an industrial growth rate of 12 per cent a year is unrealistic.

The pessimism is based on North Korea's exceptionally heavy military expenditure (about 17 per cent of gnp as compared with about 7 per cent for the South) and the high cost of keeping 12 per cent of males of military age in the armed forces; severe droughts which have affected food and hydroelectric power production; shortage of skilled labour; a defective transport system; and inability to pay for imports of machinery.

The Russians appear to be taking an extremely tough line as far as further aid to North Korea is concerned. However, it is thought that the Chinese leader, Mr Hua from Kuo-feng, may have offered oil at greatly reduced rates when he visited Pyongyang in May. Help in building a petrochemical plant believed to have been discussed also.

For the government in

South Korea the main concern in recent months has been inflation and reaching the 1978 export target of \$12,500m.

In June interest rates were raised in an attempt to counter excessive liquidity caused by export earnings. Money supply rose by 1 per cent in the year ended last January and between December and July consumer and wholesale prices were up by 11.8 and 7.8 per cent respectively. For a time, among them, figures were far higher.

About \$1,000m in earnings from foreign construction projects has been frozen in special bank accounts until next January and an extra \$500m worth of imports is planned between now and next March. Economists argue that liberalization of imports but this is opposed by companies which fear foreign competition. They would prefer a gradual easing of restrictions, first on spare parts and intermediate goods, then on final products.

Protectionist measures against South Korean goods include textiles, footwear, consumer electronics, steel, and the continued recession in world shipping has raised doubts about achieving a 25 per cent increase in exports this year. The higher cost of export materials, particularly the steel from Japan, are other adverse factors.

Any notion that South Korea might relax its export drive was quashed in a month when President Park urged the country to waffle out until overseas sales reached \$50,000m a year.

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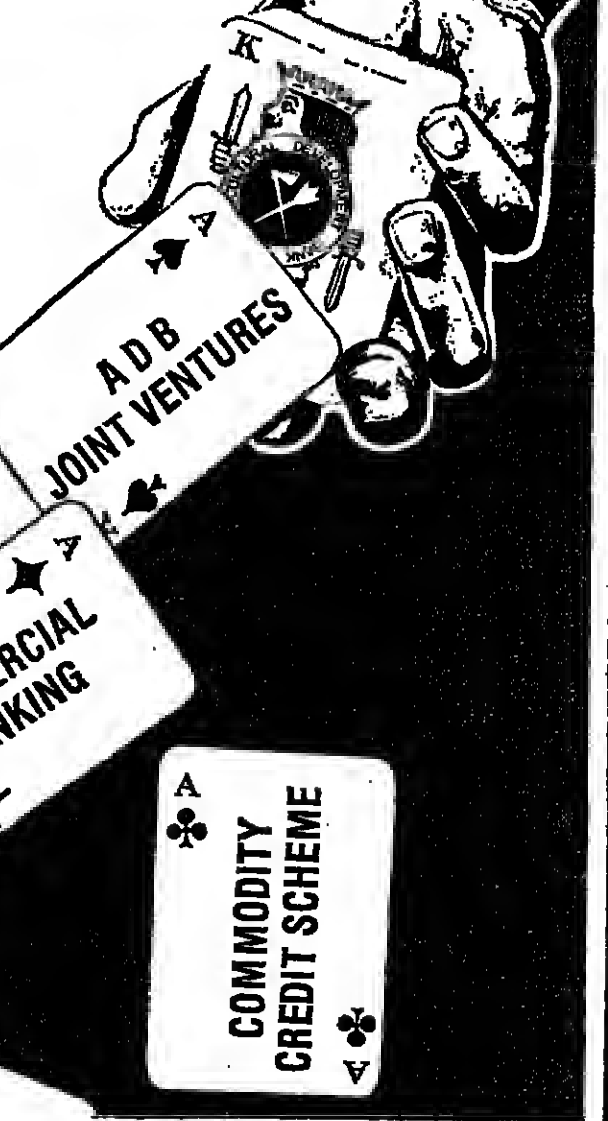
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